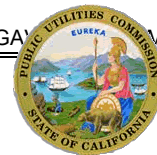


## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

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October 23, 2019

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Ratesetting

## TO PARTIES OF RECORD IN RULEMAKING 13-11-005:

This is the proposed decision of Administrative Law Judge Fitch. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 5, 2019, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ JESSICA T. HECHT for  
Anne E. Simon  
Chief Administrative Law Judge

AES:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ FITCH** (Mailed 10/23/2019)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking  
Concerning Energy Efficiency Rolling  
Portfolios, Policies, Programs,  
Evaluation, and Related Issues.

Rulemaking 13-11-005

**DECISION REGARDING FRAMEWORKS FOR ENERGY EFFICIENCY  
REGIONAL ENERGY NETWORKS AND MARKET TRANSFORMATION**

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Attachment A – Adopted Market Transformation Framework

## **DECISION REGARDING FRAMEWORKS FOR ENERGY EFFICIENCY REGIONAL ENERGY NETWORKS AND MARKET TRANSFORMATION**

### **Summary**

This decision adopts frameworks for two key areas of energy efficiency policy: regional energy networks (RENs) and market transformation initiatives (MTIs).

The decision authorizes the continued operation of existing RENs and invites new REN proposals as business plans to be filed with the Commission, if they meet certain additional requirements as defined in this decision. Any new REN will be required to represent more than one local government entity, to coordinate with existing program administrators in their geographic area prior to filing their business plan, to vet their proposal with stakeholders through the California Energy Efficiency Coordinating Committee (CAEECC), and to explain their REN governance structure in their business plan filing.

This decision also clarifies that some geographic overlap among more than one REN and other program administrators may be permitted, as long as there is appropriate coordination. REN criteria are also kept in place and clarified such that RENs are designed to fill gaps in the portfolios of all other program administrators (not just utilities) and to serve hard-to-reach customers. No cost-effectiveness threshold is required for RENs, but benefit-cost ratios and savings targets must be filed with the REN business plans. Finally, RENs are not confined to any particular program area or customer segment.

On the topic of market transformation, this decision adopts most of the elements of a framework proposed by the CAEECC's Market Transformation

Working Group (MTWG). The MTWG did not achieve consensus on all items, and this decision resolves those issues.

In particular, this decision selects an independent, statewide, third-party administrator, to be hired by Southern California Edison Company through a competitive solicitation process, and approved and overseen by the Commission. The decision declines to set a benefit-cost ratio threshold for individual MTIs at this stage, though the administrator is required to make a cost-effectiveness showing for each MTI when proposed. Initial funding for the MTIs will be for five years and a total of \$250 million, to begin once the initial tranche of MTIs is reviewed and approved by the Commission.

Attachment A to this decision presents a modified version of the MTWG framework, summarizing all of the additional elements of the framework approved in this decision.

This proceeding remains open.

## **1. Background**

The topics of regional energy networks (RENs) and market transformation framework have been included as priority items in Phase 3 of this rulemaking. Details of the background on each of these two topics are summarized in this section.

### **1.1. Background on Regional Energy Networks**

The Commission originally introduced the concept of RENs in Decision (D.) 12-05-015. At the time, local government partnerships (LGPs) were in existence, but the Commission was exploring ways to involve local governments more directly in administering energy efficiency programs. RENs were intended to augment or supplement the existing utility energy efficiency portfolios. At the time, the RENs were defined as “pilot” programs. D.12-05-015 states, in part:

We find the concept of local government regional pilots to be reasonable. Authorizing pilots in the 2013-2014 transition portfolio would provide local governments the opportunity to develop a track record. We anticipate that the 2013-2014 programs would lead to a series of lessons learned on the appropriate level of local government administration of ratepayer-funded energy efficiency programs....Commission Staff will conduct and/or oversee the evaluation of any pilots selected, consistent with the process set forth for evaluation of IOU [investor-owned utility] programs in D.10-04-029 and other decisions. If we determine that there are desirable proposals for regional local government energy efficiency pilot programs, the utilities will be directed to contract for selected regional pilots.<sup>1</sup>

The first RENs were approved in D.12-11-015. At the time of the approval of the first RENs, many local governments had experience administering energy efficiency programs directly because of access to grants and other funding from the American Recovery and Reinvestment Act (ARRA) of 2009. D.12-11-015 sought to capitalize on that experience by continuing successful approaches that had been piloted through ARRA and were deemed appropriate to be continued. D.12-11-015 also introduced specific criteria by which to evaluate the REN proposals. Those criteria were as follows:

1. **Activities that utilities cannot or do not intend to undertake.**  
The rationale for this should be obvious – if a REN can deliver a service to the market that the utilities cannot, it should be considered.
2. **Pilot activities where there is no current utility program offering, and where there is potential for scalability to a broader geographic reach, if successful.** In this case, the concept would be to test program delivery that is different or unique, for potential to be scaled up to a statewide approach delivered either by RENs and/or by utilities in the future.

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<sup>1</sup> D.12-05-015, at 148-151.

3. **Pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap.** These activities may or may not be intended to be scalable to a larger area. The rationale is that hard-to-reach markets (including multi-family and low- to moderate-income residential, as well as small commercial) need all the help they can get to achieve successful energy efficiency savings. A piloted approach may work well in a particular geographic region because of its specific characteristics, or it may be appropriate for a wider delivery by RENs and/or utilities elsewhere.<sup>2</sup>

A cost-effectiveness requirement has never been applied to RENs individually, since the criteria above were designed to allow the REN programs to operate as supplemental to and in conjunction with the existing utility energy efficiency portfolios.

It is important to note that both of these formative decisions on RENs referred to above were adopted before the current version of Public Utilities Code Section 381.1<sup>3</sup> went into effect, which allows community choice aggregators (CCAs) to elect or apply to become administrators for energy efficiency funds, either for their own customers and/or for all customers within the geographic area they serve.<sup>4</sup>

D.16-08-019 further addressed the topic of RENs and whether they should be continued. The decision addressed two questions that had been raised in a ruling seeking comment at that time in the proceeding:

1. Does REN program performance warrant continuing REN programs, regardless of whether RENs remain program

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<sup>2</sup> D.12-11-015, at 17.

<sup>3</sup> All further section references in this decision are to the Public Utilities Code.

<sup>4</sup> See Section 381.1, subsections (a) and (f), which became effective on January 1, 2013.



- administrators? Which programs should continue, receive expanded or reduced funding, or be terminated?
2. Should RENs remain program administrators in connection with whatever portfolio of programs they oversee?

D.16-08-019 addressed whether the RENs should remain as “pilot” programs, concluding that they should, because not enough evaluation information was available to make a conclusive determination about the success of the pilots at that time.

D.16-08-019 concluded that the REN portfolios, for purposes of the first business plan applications, should be treated on a case-by-case basis and evaluated alongside the business plan proposals of the other program administrators. The Commission conducted the analysis in Applications (A.) 17-01-013 et al., and approved, in D.18-05-041, a continuation of some programs for the San Francisco Bay Area REN (BayREN) and the Southern California REN (SoCalREN), as well as funding for some programs for a new REN (the Tri-County or 3CREN).

The RENs and CCA administrators were also required to submit Joint Cooperation Memos (JCMs) with the utility program administrators, detailing how they are coordinating their portfolios and programs to minimize overlap and duplication, as well as reduce customer confusion.

On March 27, 2019, an Administrative Law Judge (ALJ) ruling was issued seeking comment on the future of RENs, both new and existing, in light of current trends in energy efficiency policy and program administration. The March 27, 2019 ALJ ruling noted trends related to the proliferation of CCAs, as well as challenges for all program administrators putting together cost-effective portfolios. The ALJ ruling also noted increasing geographic overlap between

CCAs, LGPs, and RENs. Parties were invited to comment on the appropriate future policy for RENs in light of these trends.

Comments in response to the March 27, 2019 ALJ ruling were timely filed on or before April 16, 2019 by the following 18 parties: Association of Bay Area Governments (ABAG), on behalf of the BayREN; CodeCycle, LLC (CodeCycle); Community Environmental Council of Santa Barbara (CEC-SB); County of Los Angeles, on behalf of SoCalREN; County of San Mateo; County of Ventura on behalf of the Tri-County REN; East Bay Energy Watch Strategic Advisory Committee (EBEW); Local Government Sustainable Energy Coalition (LGSEC); Pacific Gas and Electric Company (PG&E); Public Advocates Office (Cal Advocates); Rising Sun Center for Opportunity (Rising Sun); Rural Hard to Reach (RHTR) Working Group; San Diego Gas & Electric Company (SDG&E); Sonoma Clean Power Authority (SCPA); Sonoma County Regional Climate Protection Authority (SCRCPA); Southern California Edison Company (SCE); Southern California Gas Company (SoCalGas); and Western Riverside Council of Governments (WRCOG).

In addition, the Commission received letters from the City of Berkeley, City of Oakley, City of San Pablo, City of Walnut Creek, and the Contra Costa County Sustainability Commission.

Reply comments were timely filed no later than April 26, 2019 by the following nine parties: ABAG on behalf of BayREN; County of Los Angeles on behalf of SoCalREN; County of Ventura on behalf of 3C-REN; Rising Sun; RHTR; Small Business Utility Advocates (SBUA); SCE; and WRCOG.

## **1.2. Background on Market Transformation**

The Commission has a long history with the topic of market transformation in energy efficiency. We do not detail every aspect of that history

here, but begin with the most recent inquiry, which began with an ALJ ruling on August 29, 2018 seeking comment on a staff proposal for a new market transformation framework. Market transformation was identified in the most recent scoping memorandum in this proceeding, dated April 26, 2018, as a priority issue to address prior to resolution of this round of rulemaking on energy efficiency.

In coordination with comments on the August 29, 2018 ALJ ruling and staff proposal, two workshops were held, on September 19, 2018 and November 6, 2018. At the conclusion of the second workshop, several of the interested parties agreed to reconvene as part of the California Energy Efficiency Coordinating Committee (CAEECC) to form a market transformation working group (MTWG) to further refine a market transformation framework proposal and to work toward consensus among stakeholders.

The final product of the MTWG of CAEECC was submitted by the Natural Resources Defense Council (NRDC) via motion in this proceeding on March 19, 2019. A subsequent ALJ ruling was issued on April 10, 2019 seeking comment on the MTWG proposed framework for market transformation initiatives submitted by NRDC on behalf of the MTWG.

Comments in response to the April 10, 2019 ALJ ruling were timely filed on or before May 6, 2019 by the following 12 sets of parties: Cal Advocates; California Efficiency and Demand Management Council (CEDMC); CLEAResult; County of Los Angeles on behalf of SoCalREN; Marin Clean Energy (MCE); NRDC; Northwest Energy Efficiency Alliance (NEEA); PG&E, SDG&E, SCE, and SoCalGas, jointly (Joint IOUs); Resource Innovations; SBUA; and The Utility Reform Network (TURN).

Timely reply comments in response to the April 10, 2019 ALJ ruling were filed on or before May 20, 2019 by the following five sets of parties: ABAG on behalf of BayREN; Cal Advocates; CEDMC; Joint Committee on Energy and Environmental Policy (JCEEP), and the California State Labor Management Cooperation Committee for the International Brotherhood of Electrical Workers (IBEW) and the National Electrical Contractors Association (NECA), jointly; and TURN.

## **2. Regional Energy Network Policy**

This section of the decision addresses the series of questions asked in the March 27, 2019 ALJ ruling that sought input from parties on the future of RENs.

### **2.1. Threshold Policy**

The first question of the March 27, 2019 ALJ ruling sought input from parties on whether RENs are still appropriate in light of likely geographic overlap and/or portfolio overlap, with CCAs and/or LGPs, in addition to utilities. The ruling sought input on the unique value brought by the RENs to the energy efficiency space.

The second ruling question also sought input on whether existing RENs should continue and why. The third question then asked about whether the Commission should allow proposals for new RENs to form.

These three questions are all addressed in this section.

#### **2.1.1. Comments of Parties**

As a preliminary matter, the majority of parties commenting in response to the March 27, 2019 ALJ ruling felt that RENs are still appropriate as program administrators in the energy efficiency portfolios. Those parties included: SoCalGas, City of San Mateo, Rising Sun, 3CREN, RHTR, LGSEC, CodeCycle, CEC-SB, SoCalREN, EBEW, SCPA, SCRCPA, and WRCOG.

Most of these parties also argue that RENs are actually increasingly appropriate, or more necessary, because of the evolving nature of the energy efficiency and energy landscape generally in California. They also point out that only a small number of CCAs have offered energy efficiency programs so far. In addition, LGPs are being reduced in budget, and in some cases eliminated altogether. Thus, these parties emphasize the increasing importance of RENs.

SDG&E, however, recommends that, in response to the changing landscape, the Commission should pause before continuing existing RENs or allowing new RENs to form. BayREN, in its response to SDG&E, suggests that this is a bad idea, because it would have an adverse impact on existing and successful programs that should be continued. SDG&E adds that additional consideration should include: the likelihood that additional CCAs will begin to administer energy efficiency programs and funds; how RENs will fit into the Commission direction for statewide programs in D.16-08-019; and the outcome of the third-party solicitations.

SCE suggests that the Commission consider the overall number of program administrators and implementers offering energy efficiency programs and services to the same customer segments to determine if this leads to overlap and potential customer confusion.

Cal Advocates offers an alternative framework where RENs would continue to administer those elements of the energy efficiency portfolio where they can demonstrate unique value linked to their status and competencies as regional government actors, but that the RENs or LGPs also can bid into the utility solicitations for third-party programs. In this way, the RENs would be required to demonstrate the value of their proposals to the energy efficiency portfolio overall.

BayREN, in reply, points out that the Commission directed changes to require third-party solicitations, but did not require this of the non-utility program administrators, instead offering encouragement for third-party bidding but not a requirement.

The following parties also actively oppose the Commission considering whether to cancel the existing RENs after the current business plan period: City of San Mateo, Rising Sun, 3CREN; BayREN; RHTR; LGSEC; CodeCycle, CEC-SB; SoCalREN; EBEW; SCPA; SCRCPA, and WRCOG.

The City of San Mateo suggests that the Commission work with the current RENs to proactively adjust their programs to improve their effectiveness in serving state and local goals.

Rising Sun opposes any suggestion of canceling existing RENs, for several reasons. First, they have not had the opportunity for a conclusive evaluation. Second, they fill gaps in services from the utilities. Third, they are more important with the shrinking of LGP budgets. Fourth, RENs are expressly focused on hard-to-reach markets that would otherwise be left behind. Finally, RENs bring regional, coordinated, and locally-responsive resources to bear on integrated issues such as water conservation, climate adaptation, and greenhouse gas emissions reduction.

3CREN comments that cancelling RENs now would result in a waste of ratepayer and taxpayer dollars. They argue that RENs have invested significant resources to develop and launch programs that are beginning to yield results in penetrating hard-to-reach markets. They add that RENs are now already part of the energy efficiency landscape. Instead, 3CREN argues that the Commission should consider the individual strengths of the various program administrators.

RHTR argues that RENs have played and can continue to play a critical role in California's energy efficiency market by providing services where the utilities cannot or will not. They comment that the utilities will not seek innovation because the perceived risk of delivering non-cost-effective outcomes outweighs the benefits of exploring new programs. Thus, RENs can be more experimental and can reach communities that are inherently less cost-effective to serve.

LGSEC opposes the elimination of RENs for the following reasons. First, they argue that the utilities are focused on short-term cost-effective savings, but the RENs are more suitable to pursuing longer-term goals, advancing equity, and reaping benefits that require deeper, persistent engagements.

CodeCycle recommends that the Commission continue to support the RENs after the conclusion of the current business plan period. They add that the RENs provide valuable programs that utilities cannot or will not offer. Specifically, they point to the fact that the utilities have acknowledged that they continue to have limitations on the types of support that they can provide to the code enforcement process.

CEC-SB claims the Commission should not cancel REN programs after the current business plan period because they offer valuable services that are working to reduce energy consumption and meet the state's energy efficiency goals. They specifically point to the significant resources invested in the design and formation of the 3CREN recently. CEC-SB states that it would be a tremendous waste of money to cancel this program before it has fully launched.

SoCalREN argues that RENs have proven their ability to deliver substantial benefits and value to the ratepayers they serve. SoCalREN points out that, for the most part, RENs are mandated to serve harder-to-reach and less

cost-effective markets and to pursue non-resource activities. Instead, SoCalREN argues that the Commission should focus on evaluating the RENs during the current business plan period and phasing out the least successful programs, but not the RENs themselves.

EBEW believes that it is premature to decide whether cancelling programs would be appropriate, since programs will evolve by 2025. Further, EBEW argues the legislative and regulatory context around energy use will also be different by 2025, and the role of the RENs and their programs may be strengthened rather than diminished. Consideration of REN programs, therefore, would be more relevant toward the end of the business plan period.

SCPA states that unless presented with strong evidence to the contrary, the Commission should not cancel REN programs after the current business plan period.

SCRCPA believes the importance of effective coordination and established partnerships will increase as investment in and deployment of distributed energy resources grows and communities navigate a successful and timely transition to a decarbonized future.

WRCOG believes the Commission should not consider cancelling the REN programs because RENs have been an important mechanism for assisting both the utilities and California with energy efficiency initiatives. Because of REN mandates to fill gaps, address hard-to-reach audiences, and provide programs the utilities will not, WRCOG argues they are essential to ensuring that all Californians have access to affordable energy efficiency solutions.

SDG&E suggests that the Commission review each utility's portfolio composition at the end of the first third-party solicitation cycle at the end of 2021 and then assess whether gaps exist, and if so, whether a REN structure is the best



way to address those gaps. SCE recommends that existing RENs should continue offering their existing portfolio of programs until after completion of a full evaluation and after completion of the third-party solicitation process. Then the RENs should be reassessed. SoCalREN also agrees that it would be premature to establish any new RENs at this time, until the evaluation study and third-party solicitation process are complete.

Cal Advocates suggests that this decision adopt a new policy framework for RENs and then direct the existing RENs to file new business plans that comport with this updated framework within six months. SBUA agrees, and also suggests that the RENs focus primarily on hard-to-reach markets. BayREN, however, find this proposal confusing since the existing RENs already filed business plans at the same time as the other program administrators.

Rising Sun sees no reason for the Commission to restrict the expansion of existing RENs or the formation of new ones, particularly if they can serve hard-to-reach customer segments. 3CREN also states that it will be impossible for the Commission to know the potential benefits of a proposed new REN without providing it the opportunity to make a proposal. Further, 3CREN states that new RENs can backfill for the loss of LGP funding.

RHTR comments that RENs should be expanded using a pragmatic approach. They seek clarification on how RENs engage and bridge to the utility and CCA programs. They suggest that an approach should be taken that balances the need to fill short-term programmatic gaps with the need to support long-term energy efficiency strategy goals.

BayREN and WRCOG both comment that each region is unique, with a diversity of constituents and energy needs. Therefore, BayREN suggests that

new REN applications should be considered and programs evaluated based on the established criteria.

LGSEC likewise sees no reason to restrict new RENs. CodeCycle supports new RENs for the same reasons it supports the existing RENs. EBEW suggests that regions without RENs should have the opportunity to be served by new ones. SCRCPA also adds that more RENs would enable beneficial impacts in more counties across the state, creating a clear market signal for contractors, building owners, and developers, who will then be better positioned to help California meet its ambitious energy efficiency, housing, and environmental goals.

CEC-SB also supports opportunities for new RENs, and suggests that future REN applications should include plans for partnering with, or supplementing the work of, other energy service providers including CCAs, LGPs, and other RENs.

SoCalGas states that without a full evaluation of all of the REN pilots, it is premature to allow for formation of new RENs. SoCalGas urges the Commission to prioritize the completion of a full evaluation of the RENs before determining whether new RENs should be considered. SoCalGas further argues that the third-party solicitation process, resulting in the outsourcing of 60 percent of the utility portfolios, should be completed, and gaps assessed, before new RENs are considered.

SoCalREN also comments that consideration of new RENs is premature, but suggests that an alternative could be to have the Commission direct local governments and their existing councils of government (COGs), within existing REN areas, to work directly with the existing RENs to propose program strategies that could be piloted under the existing REN and implemented by the

local agency or COG. SoCalREN suggests this would allow the existing RENs to utilize their already-established infrastructure and economies of scale to cultivate pilot program models under the existing REN.

RHTR, however, disagrees with this approach, stating that communities who are not currently served by or in close proximity to an existing REN would be unnecessarily marginalized. SCE also opposes the SoCalREN suggestion, because SCE is currently conducting its third-party solicitations and argues that allowing multiple venues for program proposals and venues may cause duplication and confusion in the marketplace.

WRCOG comments that BayREN actively works to engage with local governments and supports member engagement in implementation of energy efficiency programs, but feels that SoCalREN does not offer a similar level of engagement. WRCOG adds that SoCalREN is solely operated by the County of Los Angeles, and that therefore other communities are being underserved by SoCalREN. Further WRCOG does not see overlapping geographies as a barrier that should prevent the formation of new RENs. WRCOG instead offers that RENs can implement complementary efforts and work collaboratively with existing program administrators on maximizing the efforts of all parties to provide energy efficiency benefits. Therefore, WRCOG suggests that new RENs be required to complete a JCM, similar to those required already<sup>5</sup> between CCA and utility program administrators, to ensure there is no duplication of effort.

Cal Advocates argues that the Commission should only approve new RENs to the extent that they demonstrably provide new and unique value to the energy efficiency portfolio. Any new RENs, according to Cal Advocates, should

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<sup>5</sup> See D.18-05-041, Ordering Paragraph 38.

fit within the Commission's overall structure for energy efficiency, as well as the statutory requirements for cost-effectiveness and the Commission's obligation to ensure that the statewide portfolio is cost-effective. In addition, Cal Advocates argues, similar to the utilities, that new RENs should be authorized only after the existing RENs are fully evaluated and shown to be demonstrably successful.

### **2.1.2. Discussion**

First we address the question of continuation of the existing RENs. We note, as several parties did in their comments, that the existing RENs recently had business plans reviewed and approved in May 2018. The Commission conducted a full vetting process as part of the initial round of business plans, and found the program proposals of BayREN, SoCalREN, and 3CREN appropriate to fund at that time. That decision was made only a little over a year ago, and is intended to apply to the first business plan period, which runs through 2025. We see no reason to revisit that decision-making so soon after the recent review of those REN business plans.

In addition, although the concept of a REN was initially considered a "pilot" in order to test the applicability of the concept to the administration of the Commission's energy efficiency portfolio, RENs have now been in existence since late 2012. As such, they are a reality within the landscape of the Commission's energy efficiency policy. Thus, we see no further purpose served by applying the label of "pilot" to them. Uncertainty about the future of RENs as program administrators only serves to create disincentives in the marketplace for customers to participate in REN programs for fear of the Commission changing the framework surrounding them. Some reasonable amount of funding uncertainty is justified, as programs change and become more or less successful, but those types of issues can be evaluated within individual business plans

without casting doubt on the RENs as a general model for delivering energy efficiency programs.

However, as suggested by Cal Advocates and the utilities, the Commission always reserves the right to rethink the status of RENs as program administrators as a general model or on a case-by-case basis. This could be based on the results of program evaluations or other changed circumstances in the future, and applies to all types of program administrators and administrative structures.

In addition, we note that according to the provisions of D.15-10-028, the Commission requires that program administrators refile their business plans when certain “trigger” events happen.<sup>6</sup> These could initiate revisiting the role of a particular REN and its programs. Current approval for a REN business plan does not confer permanent status, just as it does not for any program administrator.

In addition, we agree with the numerous parties that pointed out in their comments that the budgets and roles for LGPs are shrinking within the utility portfolios for multiple reasons. Meanwhile, we remain optimistic that there is a unique and appropriate role for local government entities in the oversight and delivery of energy efficiency programs. That role is distinct from utilities, CCAs, or third parties. The particular areas of unique capacities include, but may not be

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<sup>6</sup> According to D.15-10-028, Ordering Paragraph 2, triggers are: 1. A program administrator is unable to adjust its portfolio in response to goal, parameter, or other updates to: a. meet savings goals, b. stay within the budget parameters of the last approved business plan, or c. to meet the Commission-established cost effectiveness threshold (excluding Codes and Standards and spillover adjustments); and 2. The Commission calls for a new application as a result of a decision in the policy track of the proceeding (or for any other reasons).

limited to, public sector buildings, issues surrounding building code compliance, and treating or delivering energy efficiency services to hard-to-reach customers.

Some aspects of energy efficiency delivery are inherently local and not appropriate for statewide implementation. Thus, having a policy supporting RENs is not inconsistent with requiring a statewide approach, as some of the utilities suggested in their comments. The energy efficiency market landscape is complex, and there is room and need for both statewide and local approaches, depending on the market and program strategy. This is especially true when it comes to hard-to-reach customer segments, which contain an increasing number of CCA and utility customers in California. Thus, the Commission's energy efficiency policy framework should appropriately maintain a role for local government administration of funds to further our energy efficiency goals, especially in certain areas.

RENs also have the unique opportunity to be able to leverage not only multiple local government entities into a single program delivery channel, but they also may be able to utilize funding from multiple sources to deliver more comprehensive and holistic programs, especially to hard-to-reach customers. For example, RENs may be able to tap into funding for other distributed energy resources, for other resources such as water conservation, and/or from other sources such as federal funding. This should allow RENs to combine and supplement approaches to deliver value to their constituents in a unique and useful manner.

For all of the reasons that we support the continuation of the existing RENs, we also see no reason to limit the ability of new RENs to form, provided they meet the requirements set by the Commission that may be updated from time to time. This decision includes additional requirements (in Section 2.2

below) that new RENs will be required to meet, to ensure that RENs continue to provide value to the energy efficiency portfolio going forward and that their efforts are coordinated with the larger energy efficiency context.

But as a threshold policy matter, we intend to allow proposals for new RENs to be considered by the Commission. Once a REN is approved, it will continue to operate through the period for which its budgets and programs have been approved, unless the Commission decides otherwise based on program evaluation results or other changed circumstances. If a new business plan cycle is ordered, either for an individual REN or for a larger number of program administrators, the existing REN would file its updated business plan at that time, as required by the Commission. The Commission and staff will continue to monitor REN program performance, and make portfolio changes as warranted by evaluation results, just as we would with all program administrators.

## **2.2. Requirements for New RENs**

As discussed above, many parties commented on whether new REN proposals should be invited or considered by the Commission. In addition, parties were asked to comment on the appropriate timing for consideration of any new REN proposals.

### **2.2.1. Comments of Parties**

Parties' comments on whether new RENs should be considered at all were summarized in Section 2.1.1 above. We have determined above that we should consider those proposals.

On the timing of new REN proposals, 3CREN and BayREN recommend that formation of new RENS should be done in advance of and in coordination with existing regulatory filings including annual budget advice letters (ABALs) and joint cooperation memos (JCMs). 3CREN and BayREN also suggest that any

new REN business plans be required to be submitted to and vetted by the CAEECC as part of a transparent stakeholder engagement process.

RHTR suggests that REN proposals can come forward at any point, but that launch of their programs be done in coordination with existing budgeting and stakeholder engagement schedules. LGSEC and SCRCPA point to D.14-01-033 provisions that first-time applicants' proposals should be considered at any time, and RENs should be no different.

WRCOG argues there should be no set schedule for consideration of REN business plans. However, the REN business plan must coordinate and go through the CAEECCC process and Commission approval process before submitting ABALs, a JCM, and metrics and implementation plans to be approved at the same time as other program administrators.

Cal Advocates states that new REN proposals should await a new REN framework addressed in this decision. Then, the Commission should seek stakeholder input on a new business plan, evaluate whether the proposed REN will provide new and unique value to the statewide energy efficiency portfolio, and evaluate whether the proposed REN will contribute to a balanced and cost-effective statewide portfolio.

SCE recommends that the Commission consider formation of new RENs only after the utility program administrators have finished conducting their third-party solicitations. Only after these are complete can the RENs propose to fill identified gaps in the portfolios or specifically target hard-to-reach customers.

### **2.2.2. Discussion**

As stated above, the Commission will consider business plan proposals for new RENs at any time, as long as they follow the guidance for RENs in D.12-11-015 and as updated in this decision. A new REN proposal may be



brought forward to the Commission by filing a motion in this proceeding or its successor (in whichever proceeding is the open energy efficiency rulemaking at the time of the REN proposals). However, we adopt certain requirements that new REN proposals must fulfill, prior to bringing their proposals to the Commission for consideration.

First, as suggested by a number of commenters, any new REN business plan proposal must be vetted during at least one meeting of the CAEECC, for discussion and feedback. In its proposal to the Commission, the new REN will then be required to include a summary of the CAEECC meeting and feedback received, and any changes made to the proposal as a result of that stakeholder feedback. New REN proposals are also encouraged to include similar summaries of any other stakeholder engagement or outreach conducted by the REN proponent prior to making the proposal to the Commission. This could include, but not be limited to, expressions of support from other local government entities or other stakeholders that would interact with the REN, if approved by the Commission.

Next, to ensure appropriate coordination with all other program administrators operating within the region that the new REN proposes to serve, we will require that initial JCMs be included with the business plan proposal to the Commission. This means that, for new RENs, coordination and overlap issues will be required to be worked out ahead of the Commission's consideration of the new REN business plan, instead of negotiated after a REN is approved. An individual JCM will be required with every program administrator that has overlapping operation in the same geographic area as the new REN, including utilities, CCAs, and other RENs. All of those JCMs will be required to be submitted with the business plan.

Next, based on initial analysis of REN best practices from existing RENs, we will require that new RENs represent at least two local government entities within their governance structure, though one local government entity may propose to take the lead, at least initially. This is intended to effectuate our preference that RENs be at least somewhat regional in nature. In addition, we will require that new RENs, as well as existing RENs when they seek to renew their budgets in their next business plan proposals, include a detailed description of their governance structure and how they will operate as a regional entity to deliver the programs.

Finally, new RENs will be required to file their progress toward their proposed metrics unique to the REN and specific to each of their approved business plans and considering their proposed service area, once the REN is approved and operating. At the time a new REN business plan is reviewed and approved, the Commission will also set energy savings targets for that REN business plan, and measure REN progress toward meeting their unique metrics and savings goals, which will be set based on the specific REN program proposals that are approved by the Commission.

### **2.3. Geographic Overlap**

The March 27, 2019 ALJ ruling sought input from parties about whether the Commission should consider proposals for formation of new RENs that overlap with existing or other new REN proposals.

#### **2.3.1. Comments of Parties**

3CREN contends that the Commission should consider proposals for the formation of new RENs regardless of whether they overlap with existing or other new REN proposals. 3CREN argues that if a new REN applicant intends to administer programs and/or serve customers in a territory already served by an

existing REN or identified in another REN proposal, the applicant should be required to demonstrate that its activities will not be duplicative with other RENs – just like it should do with a utility or a CCA.

RHTR agrees that overlap should not be prohibited among RENs. RHTR adds, and LGSEC also argues, that RENs will have different areas of expertise and interest, and that innovative thinking should be incubated.

BayREN recommends that when considering approving RENs that overlap with existing RENs, the Commission should require a detailed description of how the new REN's offerings are not duplicative and how they also fill gaps not only in utility portfolios, but also in existing REN programs. CEC-SB makes similar arguments. BayREN and WRCOG also recommend that JCMs be required between the RENs to prevent market confusion.

LGSEC argues that localized innovation that advances achievement of state goals should not be constrained.

EBEW suggests that the Commission should carefully consider new RENs with a specific logic to the geography they serve.

SoCalREN points out that D.12-11-015, which initially established REN criteria, stated that “another consideration is to discourage overlapping RENs where a single community is served by more than one REN.”<sup>7</sup> SoCalREN adds that this policy ensures that market confusion and costs to ratepayers are minimized. SoCalREN argues that it has been shown that any program market that is too fragmented and overly complex causes difficulties for customers to navigate the programs, for program operators to administer cost-effectively, and

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<sup>7</sup> D.12-11-015 at 13.

for program managers and policymakers to properly assess program performance.

Cal Advocates is concerned that the presence of multiple program administrators with overlapping territories increases uncertainty about how utilities will manage situations where third-party implementers propose programs that overlap with REN programs. Cal Advocates argues that the Commission should not approve RENs with geographical overlap unless there is a compelling justification, a plan to mitigate complexity and confusion, and evidence to support the likely success of the proposed interventions.

BayREN responds that this issue was addressed with the introduction of annual JCMs. 3CREN also points out that since most REN initiatives will be at least somewhat focused on hard-to-reach markets, they are unlikely to substantially overlap with third-party proposals that will be judged on cost-effectiveness.

Finally, SCE suggests that the Commission consider the number of program administrators overall in a given geographic area before approving a new REN proposal. SCE adds that overlapping program administrators programs is contrary to the Commission's vision for statewide programs articulated in D.16-08-019 and D.18-05-041.

### **2.3.2. Discussion**

As we have already mentioned earlier in this decision, the energy efficiency landscape in California is complex, and we are not convinced that having any geographic overlap between administrators or programs must be inherently negative or confusing. What we seek to avoid with "overlap" concerns, is duplicative administrative costs that may be associated with multiple administrators operating in one area, disproportionate funding

concentrated on one geographic area, and/or multiple program administrators conducting similar activities. In addition, we want to avoid customers receiving confusing or multiple competing offers for the same type of measure or project.

As long as program administrators and implementers are addressing different aspects of the energy efficiency marketplace, and/or coordinating their efforts in the same geographic area, some overlap may be fine or even positive, especially if the individual entities coordinate their offerings and their outreach to customers. Thus, we will not make any high-level prohibition on geographic overlap between administrators. We will require appropriate coordination, however, and may direct the newly-approved or an existing REN not to offer programs or services in areas where there is service overlap if we do not see appropriate coordination or we see too much potential for customer confusion or duplicative spending.

We have already partially addressed the potential for geographic overlap with new RENs by requiring above that the new RENs submit JCMs with all program administrators with whom their geographic area and activities will overlap. Here we extend that requirement to all RENs, existing or new. An annual JCM will be required from all RENs, utilities, and CCAs that serve the same geographic area. In addition, we encourage, but do not require, RENs to negotiate program design and implementation details with third parties, once selected by the utilities, whose program offerings overlap with those of the REN. Coordination and cooperation is in the interest of all program administrators and/or implementers, as well as the Commission and the customers being served.

## **2.4. Criteria**

In response to the March 27, 2019 ALJ ruling, parties were asked to give input on whether the criteria adopted for RENs in D.12-11-015 and reaffirmed in D.16-08-019 are still appropriate to be applied to RENs and their programs, or whether new criteria should be developed. The original criteria are the following:

- Activities that utilities cannot or do not intend to undertake; or
- Pilot activities where there is no current utility program offering, and where there is potential for scalability to a broader geographic reach, if successful; or
- Pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap.

Parties were also asked to weigh in on whether REN programs should be required to meet all of these criteria instead of just one.

### **2.4.1. Comments of Parties**

Rising Sun, BayREN, and LGSEC argue that the third criteria should be amended to include not only hard-to-reach, but also underserved customer segments who pay for energy efficiency programs but experience significant barriers to program participation and access, particularly to untargeted, mainstream programs. BayREN particularly argues that the definition of hard-to-reach included in D.18-05-041 is now too restrictive and should be broadened to include “underserved.” SoCalREN, SCRCPA, EBEW, and WRCOG also support this expansion.

RHTR and 3CREN argue that the current criteria are still appropriate. CodeCycle agrees, and adds that RENs could be assisted in filling gaps if there were more transparency in the IOU processes that create the gaps in the first place. SoCalREN also recommends that the Commission modify the first

criterion to clearly state that the RENs should be seeking to fill gaps identified within the market or activities.

EBEW argues that in addition to hard-to-reach goals, RENs should be encouraged to serve small and medium businesses, and achieve deep energy savings. Therefore, EBEW suggests that additional criteria should be added to reflect these priorities.

SCE recommends two changes to the criteria. First, SCE suggests that REN activities be evaluated based on their ability to fill gaps not only in utility portfolios, but also CCA portfolios. Second, the Commission should consider cost-effectiveness criteria for RENs.

SoCalREN believes that the RENs should strive to find a path to cost-effectiveness, but the Total Resource Cost (TRC) test benefit-cost ratio threshold for the utility portfolios is not appropriate for RENs. Still, SoCalREN suggests that RENs can continue to seek cost efficiencies, and suggests that the Commission adopt a 5% annual requirement to increase cost-effectiveness from current levels for RENs. SoCalREN recommends that meeting this requirement over the business plan period would automatically confer permanent status as a program administrator.

According to Cal Advocates, the criteria adopted in D.12-11-015 are no longer appropriate for evaluating many of the REN programs because the Commission's overall structure for energy efficiency has changed. Cal Advocates argues that those criteria were designed to accomplish two things: ensure no duplication with the activities of the utilities and direct RENs towards activities that were most in line with the core competencies of local government agencies. One the issue of duplication, with the third-party bidding requirements, Cal Advocates argues that the utilities will no longer be in control

of most of the programs in their portfolios and therefore it is not necessary to steer RENs away from activities provided by utilities.

In addition, Cal Advocates highlights that the utilities have a new method of identifying the competencies of potential energy efficiency implementers and selecting providers of energy efficiency programs, through the third party solicitation process. Therefore, Cal Advocates suggests that the RENs should bid into the utility third party solicitations. If the Commission still wants to evaluate separate REN proposals, Cal Advocates suggests that the following criteria apply:

- The proposed program does not fit within any planned solicitation.
- The program will provide substantial value to the energy efficiency portfolio.
- The REN has unique capabilities to offer the program and would create value that would not otherwise be realized.

BayREN disagrees with the idea that RENs be required to bid into third party solicitations. BayREN states that D.16-08-019 excluded non-utility program administrators from the definition of third party.<sup>8</sup> Second, participating in a competitive solicitation with for-profit entities with significant resources would put local government implementers at a disadvantage and it is questionable if this is an allowable use of tax dollars for local governments. Third, the RENs already have approved business plans. Fourth, the JCMs show the unique value of REN programs. Fifth, BayREN operates in only a small portion of PG&E's

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<sup>8</sup> D.16-08-019 at 67, states: "To be designated as "third party," the program must be proposed, designed, implemented, and delivered by non-utility personnel under contract to a utility program administrator. Though not stated in the ruling, this definition was not intended to apply to non-utility program administrators."



territory, so it would be nonsensical to be required to bid outside of its territory, especially since outreach is done by the local government agency members. Finally, BayREN argues that the Commission does not have the resources to assign programs to the different program administrators, nor should this be the Commission's role.

No party argued that RENs should be required to meet more than one of the original criteria for RENs from D.12-11-015. Rising Sun, SCPA, 3CREN, RHTR, BayREN, LGSEC, SoCalREN, EBEW, SCRCPA, and WRCOG all agree that it should be sufficient for RENs to meet at least one of the criteria, but not be required to meet more than one.

SDG&E believes that the criteria should focus primarily on what the utility is or is not undertaking. However, SDG&E argues that since the makeup of the utility portfolio is changing significantly with the majority of the portfolio being designed and implemented by third parties, the Commission should reassess the role of RENs in 2021.

SCE recommends that the RENs not be required to meet all three criteria, but that they should remain focused on filling gaps in the utility portfolios and reaching hard-to-reach customers.

#### **2.4.2. Discussion**

The criteria set in D.12-11-015 seem to have served reasonably well since they were instituted. We do want to make some changes relevant to the changing landscape of program administrators with the addition of CCAs into the mix. In particular, we will require that the first and second criteria be amended to include criteria for activities that utilities or CCAs cannot or do not intend to undertake, or where there is no current utility or CCA program or portfolio offering (in contrast to only utilities being mentioned in the initial

formulation of the criteria). Thus, we will largely preserve the concept that RENs are intended to fill gaps in other program administrators' portfolios.

We also add that the program or programs must add value and contribute to the State's current and future energy efficiency goals. We also broaden the program administrator group to include CCAs, whether they are administering energy efficiency programs for only their own customers (like Lancaster), or beyond that customer base in their geographic area (like MCE). Existing or prospective RENs will be required to show how their program offerings supplement those of overlapping REN, utility, and CCA program administrators or implementers.

Specifically, RENs must state their desired outcome from activities that fill gaps of other program administrators. The RENs shall also propose savings goals and metrics associated with their unique value, as well as a methodology for measuring progress toward their metrics, in their business plans and ABALs.

With respect to the third criterion, numerous commenters suggested broadening it beyond "hard-to-reach" which is now specifically defined in D.18-05-041, and to include a new category called "underserved." While we appreciate the motivation behind this suggestion, which is to serve more customers, no party provided a suggested definition of "underserved" that we can readily adopt here. Without a specific definition, we fear we would be opening up the REN portfolios too broadly and creating more potential for overlap in customer segments that are being served, but meet a particular proponents' unique definition of underserved. As such, we will not adopt a broadening of the third criterion here.

We do remain open, however, to constructive ideas about how we can allow RENs to serve more customers that are not being adequately addressed by

other administrators. If a consensus among parties is reached in the future about an appropriate definition of “underserved,” we would consider broadening this criterion in the future.

Finally, on the question of whether RENs should be required to meet more than one of the three criteria, no party supported this in their comments. We also believe this would be too restrictive, and therefore will continue to require that RENs meet at least one of the criteria, but not all three.

In sum, the revised criteria that the Commission will consider in approving new or renewed REN business plans will be as follows:

- Activities that utilities or CCAs cannot or do not intend to undertake.
- Pilot activities where there is no current utility or CCA program offering, and where there is potential for scalability to a broader geographic reach, if successful.
- Activities serving hard-to-reach markets, whether or not there is another utility or CCA program that may overlap.

## **2.5. Cost-Effectiveness and Budget Requirements**

Currently, there is no threshold requirement for cost-effectiveness for REN portfolios. The March 27, 2019 ALJ ruling asked parties to weigh in on whether a threshold should be required for new RENs or for the continuation of existing RENs, and if so, at what level. In addition, this section addresses whether there should be cost or budget limitations on RENs.

### **2.5.1. Comments of Parties**

SoCalGas states that RENs should implement programs in a cost-effective manner, but should not be required to meet the TRC threshold required of utility program administrators. SoCalGas adds that placing such requirements on RENs would hinder program offerings and limit the RENs’ ability to meet the

Commission's intentions, specifically with respect to filling gaps in others' programs and serving hard-to-reach customers.

Instead of TRC thresholds, SoCalGas recommends the Commission set other metrics for success, such as ensuring administrative efficiency and establishing outreach or customer participation targets.

Rising Sun, 3CREN, RHTR, BayREN, LGSEC, EBEW, SCPA, SCRCPA, and WRCOG all state in some fashion that RENs should not have the same cost-effectiveness threshold requirements as utilities, because by definition they are required to do things that utilities are not doing. Instead, these parties all offer ideas about metrics that RENs should be required to adhere to, such as customer participation targets, effective administration, or addressing social or environmental benefits.

RHTR and LGSEC also offer that the Societal Cost Test is more appropriate than the TRC to measure REN cost-effectiveness, but that the test is not yet Commission policy and so not appropriate for current application to RENs.

Cal Advocates acknowledges that the Commission, in D.18-05-041, declined to set a cost-effectiveness threshold requirement for RENs due to the more limited scope of activities in REN portfolios. Cal Advocates believes that this is a viable approach as long as the Commission exercises meaningful oversight of the cost-effectiveness of the statewide energy efficiency portfolio, encompassing all program administrators. Cal Advocates argues that although the RENs' portfolios may not be cost-effective, they should be balanced out by surplus benefits from the utility portfolios in order to ensure that the portfolio of ratepayer-funded energy efficiency programs is cost-effective overall.

Cal Advocates further argues that if the Commission authorizes some portfolios that are marginally cost-effective and some portfolios that are well

below a TRC benefit-cost ratio of 1.0, then the statewide portfolio will have negative benefits and place a burden on ratepayers, in addition to being out of compliance with § 381(b)(1).

Cal Advocates therefore concludes that the Commission should consider whether it remains feasible and appropriate to continue to authorize funding for REN portfolios that have never achieved and may never achieve a TRC benefit-cost ratio of 1.0 or above.

RHTR agrees that the statewide energy efficiency portfolio should be cost-effective, and agrees that less cost-effective REN programs should be balanced by a surplus in benefits from the utility portfolios.

SCE suggests that an appropriate threshold for the RENs to meet is at least a TRC benefit-cost ratio of 1.0 on a forecasted basis, to ensure that ratepayers are receiving benefits commensurate with costs incurred. However, SCE states that should the Commission determine that this is not an appropriate standard for RENs to meet because they are filling program gaps, then an alternative method should be developed to measure the net benefits of REN programs. SBUA and SoCalREN disagree with this proposal by SCE because the RENs have a harder task and it would be unfair, leaving the impression that RENs are administering programs poorly when in reality their programs just cost more by nature.

3CREN generally objects to the focus on cost-effectiveness by Cal Advocates and SCE as the single most important metric and encourages the Commission to consider a closer evaluation of the current cost-effectiveness tools and measures. 3CREN suggests looking at the Long-Term Energy Efficiency Strategic Plan and other State goals outlined in Senate Bill 350 and Assembly Bill 758. 3CREN questions the appropriateness of the TRC test in consideration of utility, REN, and CCA comments on the challenges that this test presents in

balancing cost-effectiveness thresholds with the ability of the program administrators to deliver benefits to those that are most underserved by standard energy efficiency programs.

LGSEC suggests that the Commission provide direction on Cal Advocates' assertion that § 381 requires that RENs are included in the utility cost-effectiveness calculations at the portfolio level.

SBUA argues that Cal Advocates' positions on cost-effectiveness should not be adopted. SBUA states that although the Commission is required to allocate funds to cost-effective programs, it does not mean the Commission should automatically deem other programs cost-ineffective. SBUA adds that providing services to hard-to-reach customers will never be as cost-effective as those that are not hard to reach, but it is not appropriate to limit services to this group of customers just because of this inherent situation.

LGSEC also believes that the TRC test is flawed. LGSEC argues that an important difference between Program Administrator Cost (PAC) and TRC tests is that the latter internalizes customer/measure costs, and that this element is the most significant variable in driving increased TRC values. LGSEC argues that by placing a premium on reductions in measure costs, the TRC creates biases against: projects that have prevailing or living wage requirements, as is the case for many local government public works plans; and communities with high installation costs, because customers are geographically dispersed and/or implementers face difficulties accessing homes. Conversely, LGSEC argues the TRC incentivizes installation of the lowest quality "qualified" products and encourages service provisions to the easiest, and most lucrative, customers to reach.

SDG&E believes that the Commission should reexamine whether it is in the best interests of ratepayers for REN programs to be absorbed into utility portfolios and be treated similarly to LGPs. Under this model, the utilities would take responsibility for balancing the portfolio cost-effectiveness, while the RENs would continue to design and implement their programs. BayREN argues this is contrary to D.12-11-015 and SDG&E doesn't explain why that decision should be modified.

SoCalREN recommends that the Commission adopt a requirement for a 5% annual increase in portfolio cost-effectiveness by RENs. This value would be required to be filed with the REN's ABALs, to allow for Commission oversight and public transparency.

3CREN disagrees with SoCalREN, calling a 5% annual increase unsubstantiated. 3CREN argues such a policy will destabilize the energy efficiency portfolio and undermine the Commission's purpose in establishing the RENs. Instead, 3CREN suggests that alternative methods of determining cost-effectiveness should continue to be discussed and pursued before the Commission applies a threshold.

RHTR also disagrees with the SoCalREN 5% annual cost-effectiveness increase proposal, because: the results will deliver nominal cost-effectiveness increases; such a requirement, all else equal, would achieve a PAC benefit-cost ratio of 1.0 in about 2045; this would create disincentives for future and existing RENs to pursue and file cost-effective proposals initially; and RHTR maintains that applying a TRC requirement will undermine the purpose of RENs.

BayREN also argues that there is no evidence or analysis to support the 5% annual increase value, and adopting a new policy would conflict with

D.18-05-041, which approved the business plans of the existing RENs. BayREN remains open to exploring alternative tests for cost-effectiveness.

PG&E recommends that the RENs be required to meet certain cost-effectiveness criteria, but not the same thresholds required of the utilities. PG&E argues that because the RENs are intended to conduct activities that the utilities cannot or do not plan to, and that target hard-to-reach customers, this can be challenging from a cost-effectiveness perspective, and therefore the Commission should not adopt a specific cost-effectiveness threshold for the RENs at this time. However, PG&E does recommend that the Commission consider comparing the TRC benefit-cost ratios of similar utility and REN resources programs to determine if a reasonable threshold TRC can be informed by this comparison.

BayREN believes that comparing the TRC of similar utility and REN programs is reasonable, but should only be done after impact evaluations are complete, and not based on savings claims alone. BayREN also recommends that the Commission define clearly what characteristics make a program “similar” and comparable.

### **2.5.2. Discussion**

We approved the existing REN portfolios recently, in D.18-05-041, and at that time reaffirmed that we do not wish to set a specific cost-effectiveness threshold for RENs. This is both because the size of the REN portfolios is smaller, and because the RENs are inherently designed to take on filling gaps in the other larger portfolios or serving the needs of hard-to-reach customer segments/markets that will be naturally less cost-effective to serve. None of this reasoning has changed, and therefore, we continue to decline to set a cost-effectiveness threshold for new or existing RENs now.



This decision does not mean that cost-effectiveness or cost efficiency is unimportant. As noted in D.16-08-019,<sup>9</sup> the Commission encourages RENs to manage their programs with an eye toward long-term cost-effectiveness, just as we encourage the other program administrators to do. RENs will continue to report the cost-effectiveness of their offerings in the same manner as the other program administrators, and the Commission and stakeholders can continue to monitor those portfolios for cost savings or benefit enhancements to help improve cost-effectiveness over time.

We also decline to adopt the recommendation of SoCalREN for a requirement for a specific 5% annual cost-effectiveness improvement, leading to permanent status as a REN. We prefer to continue to evaluate the REN proposals in their business plans, and base our decision-making on the particular elements included there, including cost-effectiveness showings and cost efficiencies such as projecting reductions in administrative and non-incentive costs. It is not clear why the 5% number was chosen and it would also unnecessarily penalize RENs who start out their program strategies with more attention to cost-effectiveness, making it harder to improve the metrics later. Thus, we do not find an annual increase requirement to be a necessarily effective strategy to achieve the Commission's goals of cost efficiency. However, we do welcome SoCalREN's instinct to look for cost savings and cost-effectiveness improvements over time in its own portfolio.

We also address the arguments of Cal Advocates that the Commission is somehow required by § 381 to approve a cost-effective portfolio of energy efficiency programs overall. While D.12-11-015, in approving the first RENs,

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<sup>9</sup> D.16-08-019 at 12.

noted that the Commission was interested in ensuring a cost-effective portfolio overall by balancing the cost-effectiveness of REN proposals with those of utilities, nowhere did that decision say that this balancing is required by statute. The language of D.12-11-015 was intended to strike a balance and show the Commission's continuing attention to cost-effectiveness as a priority, but not prohibit the Commission from approving REN proposals that are less cost-effective because of the requirements placed on them to fill gaps and serve hard-to-reach customers.

We find Cal Advocates' arguments about cost-effectiveness requirements upside down. The provisions of § 381(b)(1) represent a "floor," requiring that the Commission must ensure that all cost-effective energy efficiency receives investment, but not that this is a limitation on the Commission requiring additional energy efficiency expenditures, where warranted. The exact language of § 381(b)(1) states that "the Commission shall allocate funds...to cost-effective energy efficiency and conservation activities," but it does not prohibit the Commission from allocating funds to other non-cost-effective energy efficiency and conservation activities beyond the cost-effective level, if they are appropriate and provide value. While the Commission historically has not gone beyond the minimum requirements to fund cost-effective energy efficiency and conservation in the past, it does not mean that the law prohibits going beyond that level now.

In the past, there has been so much cost-effective energy efficiency that there was never a need to consider additional expenditures beyond that level. Indeed, the language that Cal Advocates relies on in D.12-11-015<sup>10</sup> is indicative of

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<sup>10</sup> See D.12-11-015, Conclusion of Law 15, which states: "The Commission should consider the REN and MEA proposals in concert with the utility portfolios to approve an overall cost-effective portfolio in each utility service territory on behalf of its ratepayers."

a point in time where cost-effectiveness was less of a challenge than it is today. While D.12-11-015 stated the Commission's intent to create an overall statewide portfolio that was cost-effective, including REN, utility, and CCA programs, that does not mean that the Commission's intention at that time has become a statutory requirement.

Given that our cost-effectiveness tests embed the costs of achieving the State's clean energy goals, they generally represent an appropriate proxy for determining the appropriate level of energy efficiency spending, since by definition spending on efficiency in excess of cost-effective levels suggests that there is a lower-cost path to achieving the state's clean energy goals. However, the Commission must weigh a number of factors and other goals in determining appropriate levels of spending on energy programs, and energy efficiency is no different. The Commission is still free to exercise its judgement and fund energy efficiency and conservation investments that go beyond the budget "floor" required by the cost-effectiveness standard in § 381(b)(1) if they provide value to ratepayers, even if the costs may sometimes exceed the benefits.

In recent years, in part because of the success of the Commission's energy efficiency investments over the past several decades in California and the California Energy Commission's aggressive adoption of codes and standards, there is less cost-effective energy efficiency available, at least by the current and long-term definitions of cost-effectiveness, than has been historically available. While the Commission is continuously evaluating whether or not to modify its measures of cost-effectiveness, for example by piloting the use of a Societal Cost Test, it remains useful to have an ongoing metric by which to notice shifts in costs and benefits over time, using the traditional TRC measures. We do not believe, however, that the Legislature's intent was to limit the Commission from

requiring investment in energy efficiency and conservation activities that provide benefits, even if those benefits do not necessarily exceed costs, especially by short-term measures. In fact, Section 3 of this decision addresses the market transformation framework requirements, which are designed to be longer-term and more sustainable, but that may not be able to demonstrate cost-effectiveness on Day 1.

Therefore, we find that the Commission is not prohibited from considering funding for REN proposals, even if their benefit-cost ratios, when combined with utility and CCA portfolios, do not reach a blended cost-effectiveness level of 1.0 according to the TRC or PAC.

However, we do give some further guidance on appropriate budget levels dedicated to REN programs. Since RENs are not required to meet a specific cost-effectiveness threshold, this guidance should help RENs gauge the reasonableness of budget proposals. Simply put, the RENs' budgets should be proportional to the incumbent IOU budgets, in the same territory, for the number of customers served by non-statewide and non-regional programs,<sup>11</sup> while taking into account plans to serve hard-to-reach customers.

## **2.6. Sectors or Program Areas**

The March 27, 2019 ALJ ruling asked parties to weigh in on whether REN programs should be focused on or restricted to certain customer types, sectors, or program areas.

### **2.6.1. Comments of Parties**

Rising Sun does not believe that limits should be placed on RENs, though they should continue to prioritize hard-to-reach and underserved populations.

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<sup>11</sup> As defined in D.14-01-033, Section 3.2.4.3.

3CREN, RHTR, and LGSEC also would not limit RENs to certain sectors or populations, so long as they meet the other criteria.

BayREN offers that the question itself is irrelevant. Rather, the analysis should focus on who can best fill gaps and serve sectors or customer types.

According to SoCalREN, limiting REN programs to certain sectors or populations would limit the ability of RENs to design and offer programs that best serve the needs of the communities they serve and meet their other objectives.

EBEW and WRCOG both point out that program gaps change over time, and thus it would be difficult to pre-determine what sectors or populations the RENs should serve.

SCPA suggests that preemptively restricting the sectors or populations for RENs would create harmful barriers in the future. SCRCPA also feels that this would restrict RENs from being responsive and flexible in their service offerings.

SCE agrees that customer segment or populations should not be restricted, but argues that RENs should focus on a mix of resource and non-resource programs in their portfolios to ensure that their programs are a good use of ratepayer funds.

CodeCycle also sees value in having RENs oversee both non-resource and resource programs, noting that some non-resource programs would benefit from shifting to resource program status.

### **2.6.2. Discussion**

We agree with the parties that there is no need to restrict the customer segments or program areas that the RENs are intended to serve, as long as RENs meet the other criteria we have laid out. As stated more than once in this decision, the energy efficiency landscape and market in California is complex,

and though there are areas where RENs are naturally suited to focus based on their status in the local government arena and their inherent expertise, if they have desire or willingness to take the time and effort to develop detailed program proposals to serve customers in their communities who would benefit, we encourage them to do so, without regard to particular customer segments or program areas.

## **2.7. Mechanics**

In response to the March 27, 2019 ALJ ruling, parties made a few other suggestions to improve the Commission's oversight of the RENs. In particular, several parties suggested an additional stakeholder workshop and PG&E also requested more flexibility in how to perform its role as the fiscal agent for RENs in its territory.

### **2.7.1. Comments of Parties**

RHTR requests that a workshop be held before the Commission make any decisions about the future of RENs. RHTR recommends that a workshop address the following questions, at a minimum:

- Is there a new role for the RENs in light of the reduction in LGP budgets and services to the LGPs?
- What is the value of the RENs to the communities they serve outside of cost-effectiveness (e.g., achievement of statewide and local environmental goals, services to otherwise underserved program participants, job creation, economic sustainability, etc.)? And how can we better account for those benefits in the cost-effectiveness calculations (i.e., can externalities be internalized)?
- What are examples of how the RENs and CCAs have worked together to offer more holistic and impactful programs to their shared customer base?

- Can RENs be a tool to effectively remove hard-to-reach from the portfolio TRC requirements to relieve the utilities of the burden of providing those services in more costly rural and hard-to-reach areas?

LGSEC agrees there should be an interactive workshop, with particular attention to the identification of benefits delivered by RENs outside of the Commission's TRC test, including achievement of environmental and energy goals, reaching underserved program participants and geographies, contributing distribution-level value, catalyzing innovation, and establishing long-term, localized, capacity and commitment to energy management efforts; whether RENs' portfolios can be usefully expanded to include a broader array of distributed energy resources as a means to serve vulnerable populations and geographies; and whether greater emphasis should be placed on utility development of innovative tariffs and other incentives that reflect underlying place- and time-based service costs, in part as a measure to motivate REN programs that can take advantage of cost-based tariffs.

3CREN, SBUA, and SoCalREN also support the idea of holding a workshop to discuss more comprehensive REN-related issues.

PG&E, in its comments, suggests a simplification of the fiscal agent role that the utilities play on behalf of the RENs, as further laid out in D.12-11-015 and D.14-10-046. PG&E asks that the RENs and utilities be allowed to jointly determine payment terms that are mutually agreeable to the utilities and the RENs, even if they depart from D.12-11-015 and D.14-10-046 requirements. PG&E also asks that the Commission consider the administrative costs to perform the fiscal agent role and include those costs in the cost-effectiveness calculation for the utility portfolios. 3CREN and BayREN support these two

requests by PG&E. BayREN believes that there is existing authority to allow for these clarifications.

### **2.7.2. Discussion**

Most of the commenters suggesting the need for a workshop were concerned that the Commission might diminish or limit the role of RENs in the future. Given this decision does not take that direction, we are uncertain if parties still see a need for a workshop. We are open to conducting a workshop on REN issues in the future should the need arise, but do not see a compelling need for a workshop immediately.

On the topic of PG&E's suggestions to allow more flexibility in the utilities' fiscal agent role for RENs, we agree that there should be flexibility in payment terms and timing, as long as both parties agree. Thus, we explicitly authorize the utility fiscal agent and a REN to depart from the specific requirements of D.12-11-015 and D.14-10-046, as long as the REN and the utility mutually agree. If they cannot mutually agree, then one party should bring a petition to modify prior decisions to the Commission, to modify the terms, if necessary.

As suggested by PG&E, there is potentially a considerable amount of administrative cost to perform the fiscal agent role for the RENs. We agree that that the fiscal agent costs should be reflected in the overall administrative costs of the utilities to run energy efficiency portfolios, and thus should be reflected in their cost-effectiveness calculations for their portfolios.

Finally, D.18-05-041 sets forth requirements should a program administrator's ABAL be rejected and D.15-10-028 freezes a program administrator's budget and programs should their ABAL not be disposed of in a calendar year. If this occurs for a REN, Commission staff may issue a disposition or resolution, that either requires a REN to resubmit a business plan or freezes or



recalculates the REN's budget for the following year based on new Commission energy efficiency goals, funding direction, or other Commission policy.

### **3. Market Transformation Framework**

The March 29, 2019 Motion of NRDC, which attached a document titled "CAEECC-Hosted Market Transformation Working Group: Report and Recommendations to the California Public Utilities Commission" (MTWG Report), included a complete proposal for all aspects of a market transformation framework recommended to be adopted by the Commission.

Many aspects of the MTWG Report included consensus issues that were agreed to by all members of the MTWG and also not objected to by any party filing comments in response to the April 10, 2019 ALJ ruling seeking comment on the MTWG Report.

This decision is structured to discuss only those aspects of the MTWG Report that were controversial and/or commented on by parties in response to the MTWG Report, as well as issues that the Commission wishes to modify. Owing to the excellent work of MTWG and its facilitators, the majority of issues were resolved collaboratively and do not need to be decided by the Commission.

Thus, the controversial items are discussed in this section of the decision, and Attachment A to this decision governs all aspects of the market transformation framework we adopt today, including those that the decision adopts based on the consensus recommendations. The topics that the Commission resolves in this decision are the following:

- Formation and composition of the Market Transformation Advisory Board (MTAB)
- Choice of market transformation administrator (MTA)
- Budgets

- Cost-effectiveness requirements
- Savings goal setting and goal attribution, as well as overall market transformation coordination.

All other aspects are reflected in Attachment A to this decision, which sets forth the full framework for market transformation. Attachment A also includes several appendices with example criteria and intake forms for market transformation initiatives (MTIs). Those appendices are illustrative only and are not intended as prescriptive. They may be modified as needed by the MTA.

### **3.1. Formation and Composition of the MTAB**

The MTWG report describes a role for a MTAB, designed to advise and provide recommendations to California's MTA, assembled from individuals with the following characteristics: from organizations with a long-term background in California or national energy efficiency; broad-based interest in outcomes of California or national energy efficiency proceedings; and a solid understanding of market transformation principles. The work of the MTAB would be assisted, if deemed needed by the MTA, by MTI-specific Initiative Review Committees (IRCs), assembled from individuals with technical expertise.

The MTWG report describes the role of the MTAB during each stage of MTI development. The MTAB is described as a non-authoritative body, making non-binding recommendations to the MTA and ultimately to the Commission.

The report states that the organizational members of the MTAB should remain constant unless the organization is discontinued or encounters a long-term conflict of interest. The MTWG report directly addresses the potential for conflicts of interest, suggesting that it may not be possible to entirely eliminate the possibility of conflicts of interest, but in individual cases where a

clear conflict arises, a member may be asked to step aside or to recuse him/herself.

The MTWG also recommended that the members of the MTAB be expected to devote the necessary time to reviewing materials and providing insightful advice, and should therefore be eligible to receive intervenor compensation in keeping with Commission guidelines governing the program.

Finally, the MTWG recommended that the MTA administer a recruitment process for membership on the MTAB, providing recommendations for final review and approval by the Commission. In addition, the Commission could have up to two ex-officio members of the MTAB from Commission staff.

#### **3.1.1. Comments of Parties**

Parties did not specifically comment on the recommendations of the MTWG on selection of the MTAB members. We can infer that members of the MTWG supported the recommendations, since there were no other options presented to the Commission for consideration.

#### **3.1.2. Discussion**

We agree generally with the MTWG that formation of a MTAB is an appropriate mechanism to seek advice and input from knowledgeable individuals in the market transformation arena. It will be important to recruit a diverse set of individuals with expertise in a variety of markets, technologies, and intervention techniques. Ideally, we would like members with experience working on similar issues in other states. We also would like a balanced MTAB, that does not contain too many members with similar perspectives.

We will leave the recruitment of members to the MTAB as one of the initial tasks of the MTA described in the next section. The MTA should focus on

recruiting individuals with critical expertise, as well as balancing diverse perspectives for maximum benefit of input.

We also agree with the MTWG that the members of the MTAB should be paid for their work; we cannot expect such depth and breadth of expertise to be offered for free, even though we expect it will be part-time and compensated hourly. However, we do not agree that the Commission's intervenor compensation program is the appropriate source of funds to compensate members for lending their expertise to this market transformation effort. The intervenor compensation program, while convenient as a source of ratepayer funds, is designed to compensate stakeholders for making substantial contributions to Commission decisions. This MTAB's purpose is something different – the contributions, while ultimately furthering the Commission's objectives, will be aimed at improving MTIs and market outcomes. Thus, we find it more appropriate to pay the MTAB members for their time and expertise out of funds allocated to the market transformation program framework overall.

However, if the source of funding is a portion of the allocation to the MTA overall, it will be important to ensure that the MTA is not just selecting MTAB members who are likely to be favorable toward their ideas, and that there is an arms-length arrangement between the MTA and the MTAB, to ensure that the MTAB is able to render effective and independent advice to the MTA.

Therefore, while we direct the MTA to conduct a process for recruitment of MTAB members, and to administer the reasonable budget for hours spent reviewing materials by the MTAB, the MTA will be required to file the proposed makeup of the MTAB as a Tier 2 advice letter, so that the Commission may approve the actual membership and composition of the MTAB.

We are also concerned about the potential for conflicts of interest. While it is likely that individual conflicts on particular MTIs could require individual MTAB members to recuse themselves on a particular individual MTI matter, the possibility of major structural conflicts should be avoided. Therefore, we will require the MTA to develop, in consultation with Commission staff, a policy about potential conflicts of interest and procedures to handle them should they arise, as well as approaches to avoiding them in the first place.

### **3.2. Choice of Administrator**

Section 5 of the MTWG Report detailed the fact that the MTWG was divided on whether the MTA should be comprised of either the existing energy efficiency program administrators or a single, statewide administrator. The MTWG presented rationale and ramifications of each choice, along with a list of MTWG members supporting each option.

Generally speaking, the rationale for use of the existing program administrators as the MTA was based on the vision for the utility role included in D.16-08-019 with respect to statewide programs. The focus of statewide administration policy is on the utilities as determiners of portfolio need and portfolio design, with program design and implementation being transferred more to third parties.

Supporters of the existing program administrators as the MTA argue that the existing administrators are naturally positioned to cultivate MTIs that complement the broader energy efficiency portfolio and work synergistically with resource acquisition and non-resource programs. Further, proponents of the existing program administrators argue that creating an MTA outside of the roles defined in D.16-08-019 would splinter accountability for important goals

and metrics and would ultimately inhibit the ability of the current energy efficiency program administrators to fulfill their responsibilities.

In addition, integrating energy efficiency with other integrated resource planning and distributed energy resource areas would suggest that the existing program administrators would have a more natural role. Finally, proponents of the existing program administrators as the MTA argue that established industry relationships are important to securing the types of long-term commitments needed to drive market transformation.

Supporters of the existing program administrators as the MTA listed in the MTWG report are: Energy Solutions; PG&E; Resource Innovations; SDG&E; SoCalGas; SoCalREN; SCE, and the Energy Coalition.

The rationale presented for a single, independent, statewide MTA focused on centralizing core functions associated with running market transformation programs in a single organization. The functions include program design, evaluation preparedness and ongoing real-time evaluation, and day-to-day management and coordination of MTIs; management of the overall market transformation portfolio; and monitoring of the relevant markets in order to identify future opportunities and gain the strategic information needed to adapt the market transformation portfolio to ensure that MTIs are relevant. The independent statewide MTA would also be responsible for bidding out implementation work as needed. The overall benefits are articulated as:

- The stability and focused expertise that flow from mission alignment;
- Efficiencies associated with a “natural” statewide purview (in contrast to a presumed service territory focus of individual utilities); and
- Agility or “nimbleness” associated with being a non-utility.

The MTWG report goes on to describe the selection process associated with the single, independent, statewide administrator. Proponents of the single, statewide MTA recommend that the Commission select a utility to act as the statewide lead on market transformation. The Commission would then order the lead utility to conduct a solicitation to hire the independent, statewide MTA. While the lead utility would be the contracting agent responsible for managing the procurement process, the selection of the independent MTA would ultimately rest with the Commission, with input from other stakeholders in the process. The proponents of this approach also suggest that the MTA solicitation follow the procedures for third-party selection established by D.18-01-004, including use of an independent evaluator and a procurement review group oversight.

Members of the MTWG supporting the choice of a single, independent, statewide MTA are: the Center for Sustainable Energy; Coalition for Energy Efficiency; CodeCycle; NRDC; Cal Advocates; Resource Innovations; Sheet Metal Workers Local 104; SBUA; and TURN.

### **3.2.1. Comments of Parties**

SoCalREN prefers the use of the existing program administrators as the MTA. They argue that the existing program administrators are naturally positioned to cultivate MTIs that complement the broader portfolio already established. In addition, they argue the existing administrators have the necessary economies of scale and infrastructure already in place. Finally, they argue that reporting structures, marketing and engineering resources, and customer communications are already in place, along with an existing regulatory oversight framework.

SoCalREN also argues that a single, independent, statewide MTA would cause undue additional administrative burden on the California energy efficiency portfolio, and would also set a precedent toward fragmentation of the oversight framework, leading potentially to problems of accountability and responsibility for the market transformation objectives, as well as inefficiency.

The Joint IOUs point to the arguments in the MTWG report in support of the existing utility program administrators as the MTAs. The Joint IOUs emphasize that the utilities are administrators of the rolling portfolio and owners of the business plans, have experience administering resource acquisition programs, meeting goals, achieving savings, reporting and having solicitation structures in place that will benefit market transformation. They also point out that synergies may exist between market transformation and other programs, and the utility program administrators are best positioned to address those. The Joint IOUs also emphasize that ongoing coordination is critical to ensure success throughout the life of both the market transformation and associated resource acquisition programs. Finally, the Joint IOUs argue that utility program administrators as MTAs will ensure transparency, collaboration, and accountability, especially with respect to Commission oversight and authority.

NRDC and TURN both point out their active membership in the MTWG and reiterate their support in the report for a single, independent, statewide MTA, primarily for: stability and focused expertise that flow from mission alignments; efficiency associated with a “natural” statewide purview; and agility associated with being a non-utility.

Cal Advocates also argues for a single, independent, statewide MTA, primarily because they believe the Commission should strive for MTIs that aim to transform markets statewide, regionally, or even nationally. They argue that



an independent MTA will integrate core functions associated with market transformation including the identification of promising projects, tracking of markets, program design, and evaluation design. Though they acknowledge that proponents of the existing program administrators as the MTA argue that coordination will suffer with an independent MTA, Cal Advocates says these coordination advantages are more hypothetical than real. Instead, they argue that there is a significant risk that the utilities will not prioritize market transformation within the broader organization, and long-duration projects with uncertain outcomes will be less favored than shorter-term resource acquisition goals for which they are held accountable. Cal Advocates argues that these issues will be magnified across multiple utility territories, and instead it will be far more beneficial to have a single entity with a clear mission to promote market transformation.

MCE argues in favor of a single, independent, statewide MTA, primarily because of the natural focus of market transformation on more regional or national upstream and midstream initiatives. MCE argues that the Commission has already recognized that these types of programs are better administered by a statewide entity.<sup>12</sup> MCE further argues that this would avoid any conflict with regard to the administration of the current portfolios, especially where utility and non-utility program administrators have overlapping footprints and programs. According to MCE, putting existing utility program administrators in charge of market transformation risks putting them in a position to be able to design MTIs that could interfere with or undermine other administrators' resource acquisition programs.

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<sup>12</sup> MCE's comments reference D.16-08-019 at 57-59.

SBUA also supports the single, statewide MTA. They argue that other states have effectively implemented a market transformation framework utilizing independent administrators, which makes this a replicable model for California. SBUA argues this represents a best practice and will promote uniformity in MTIs. In addition, SBUA believes that a single entity is better than multiple entities, and will be better positioned to focus on market transformation and interact with other states and administrators.

SBUA also argues against the use of the utility program administrators as the MTAs because they already struggle to meet the needs of the existing portfolio, especially hard-to-reach customers including small businesses. However, SBUA suggests that if the Commission chooses to have the existing utility administrators as the MTAs, then the role of procurement review groups should be emphasized.

In reply comments, both BayREN and JCEEP/IBEW/NECA support the use of the single, statewide administrator, focusing on the stability that comes from mission alignment and the efficiency of a natural statewide purview. BayREN also supports the single, statewide administrator approach, with the assumption that the MTA is required to account for existing programs and not automatically replace them without coordination.

CEDMC does not take a position on whether the existing program administrators or a single, independent, statewide MTA should be selected. Instead, CEDMC offers the following principles:

- Uniformity – The rules, implementation, and oversight of MTIs need to be uniform statewide across utility and other load-serving entity (LSE) customer bases. Many customers span these boundaries and potential for customer confusion and rejection increases if the program participation is not uniform.

- Clarity – There needs to be a transparent process for submitting, reviewing, and implementing MTIs.
- Customer Experience – The selected MTA should require that all MTIs place the customer experience at the center of the proposals to ensure seamless, clear, and rewarding execution for customers.

Resource Innovations also does not take a position on which of the administrative options is preferable, pointing out that both can work. Resource Innovations suggests that the Commission consider this in the broader context of integrating demand-side solutions, and select an administrator that best fits with the broad and long-term context.

### **3.2.2. Discussion**

The MTWG report includes important arguments in favor of both MTA options; this represents a difficult policy choice for the Commission. We agree with Resource Innovations that both options can work, but the Commission must choose one of the options to pursue.

Weighing in favor of the existing utility program administrators as the MTA is the fact that they already oversee the majority of the energy efficiency resource acquisition portfolio. This would make coordination with existing efforts easier in the short term. In addition, there is the fact that the utilities have a great deal of program administration infrastructure already built and operational.

The landscape of energy efficiency in California is changing, however. There are more program administrators in the mix than has been the case in the past. Numerous CCAs are beginning to take on roles in energy efficiency, and we have the RENs as discussed at length earlier in this decision. Thus, the utility program administrators no longer occupy the singular role that they may have in the past.

The strongest arguments in favor of a single, independent, statewide MTA are about it being a mission-driven organization focused on market transformation objectives. This will allow a focus not only on market transformation, but also help facilitate coordination with other similar, independent organizations in other states. Since most energy efficiency product markets are national or international, this is very important in the market transformation sphere.

In addition, a single statewide administrator will be able to conduct truly statewide activities on behalf of the Commission, and in coordination with other energy efficiency entities beyond just investor-owned utilities. For example, most municipal utilities have robust energy efficiency offerings that can be coordinated with a market transformation entity that is not another utility.

A single entity with a market transformation mission can also have the freedom to go beyond traditional approaches to energy efficiency that may have been constrained by the regulatory model inherent in Commission oversight of utility programs. This broader perspective and mission will help facilitate the long-term, truly transformative approaches that the state should be looking for in the next generation of energy efficiency market transformation. In order to meet the goals of Senate Bill 350 for doubling of energy efficiency in buildings, approaches that are truly outside the box will be necessary.

We are not confident, however, that an appropriate organization already exists to fulfill this transformative role. It is likely that other existing organizations (such as consulting firms, implementers, etc.) may have similar issues as utility program administrators where they have other competing organizational objectives. Thus, it will take time and careful attention to develop such a mission-driven organization focused on market transformation in

California. Because market transformation itself has a long-term focus, we find it appropriate to take the time necessary to select or form a single, independent, statewide entity capable of fulfilling the long-term objectives of market transformation.

Ideally, we would like to see the market transformation organization selected be focused entirely on the purpose of transformation of energy efficiency markets in California. Non-profit organizations have had success in this arena in many other states. We also wish to thank NEEA specifically for supporting our development of these market transformation options for California by allowing key staff to participate in workshops and working group meetings. NEEA is an example of the type of organization we would like to see developed for California and with whom we hope the eventual California entity will partner in the future.

Our preference is to have the market transformation entity be accountable to and connected with the Commission directly, to ensure alignment with all aspects of our energy efficiency policy. This implies a structure where the Commission solicits or forms the entity directly. However, due to the inherent difficulties of state budgeting and contracting, it could take a great deal of time with a potentially uncertain outcome for the Commission to take on the hiring of the independent, statewide MTA directly immediately.

To avoid those risks, we will proceed on parallel paths. First, we will designate one of the investor-owned utilities to serve as the lead utility for market transformation, to solicit and contract with the independent, statewide MTA. At the outset, it is most practical to assign this task to SCE, since it is one of the larger utilities with more staff and contracting infrastructure available. As of the time of this decision, PG&E, the other large utility, is still in bankruptcy, a

situation which also presents additional risks. Therefore, we direct that SCE serve as the lead utility supporting the solicitation and development of the independent, statewide MTA.

As stated in the MTWG report, SCE will act as the statewide lead and contracting agent, responsible for managing the procurement process. We expect SCE to undertake this task with the assistance of the current statewide energy efficiency procurement review group and independent evaluators. We also expect SCE to take time to craft this solicitation process to ensure its success, allowing ample time for entities serious about being considered to form and develop a robust approach to their bids. This means keeping the solicitation open, once launched, for at least three months.

However, the selection of the MTA will require approval by the Commission via an advice letter process, as well as participation on the selection committee by Commission staff. The solicitation for the MTA should follow the procedures for third party solicitations established by D.18-01-004, to ensure fair and well-managed procurement. Once the MTA is selected and approved by the Commission, its activities to hire contractors and handle implementation duties would not be subject to the third-party bidding requirements, since those processes are designed to apply to utility solicitations.

The MTWG report suggests that the initial MTA be hired for a four-year timeframe. As discussed further in the next section of this decision, we prefer to set a five-year initial timeframe. Regardless, the MTAB will be asked to provide input assessing the performance of the MTA at the end of its third year of operation, at which time the Commission may adjust course, as warranted.

The operation of the MTA will be similar to the current approach to RENs, where the MTA will have a separate ability to file advice letters and other proposals to the Commission, as a separate program administrator.

In parallel with SCE's managing the solicitation to hire a new, single, statewide, independent MTA, the Commission will begin the process of seeking Legislative authorization for direct contracting for an MTA in the future. This will be, however, a longer-term process. It may still be most expeditious in the long-term for the Commission to continue to have a designated utility contract for the services of the MTA.

### **3.3. Budget Provisions**

This section addresses the budgeting process for market transformation, above and beyond the programs already included in the rolling portfolios that may be partially or fully related to market transformation objectives. The budget provisions discussed herein are related to the new activities to be undertaken by the new MTA.

The MTWG report proposed that the Commission set a "not to exceed" budget for a number of years and authorize MTIs from this pool of available funds. The MTWG recommended that the budget be incremental to the currently-authorized budgets for the rolling portfolios, and authorized for an initial period of four years. Further, the budgets for each MTI would be determined at each stage-gate (stage gates are described in Appendix A to this decision).

The proposed annual budget process is similar to the rolling portfolios, where an annual advice letter would be filed each year for the upcoming budget year. After the initial budget period, the MTWG recommended that the MTA be

required to file a market transformation business plan application requesting funding authorization.

As far as funding split by utility territory, the MTWG recommended that the allocation be the same as for statewide energy efficiency programs generally, considering the applicable electric and gas split associated with each MTI.

### **3.3.1. Comments of Parties**

In response to the questions in the April 10, 2019 ALJ ruling, parties proposed a number of different budgets for this market transformation framework.

CEDMC comments that funding for market transformation should be incremental to the rolling portfolio budget and should never compete with, nor cannibalize, funding made available to resource acquisition. CLEAResult agrees. The Joint IOUs, SoCalREN and MCE also support an incremental budget allocation.

Resource Innovations recommends an incremental funding budget of \$48 million for statewide market transformation for the start-up period, likely approximately two years.

NRDC recommends a specific incremental budget allocation of \$100 million over three years, with a process to request additional funds if needed. NRDC recommends that a robust initial budget allocation will be necessary to attract a professional and qualified administrator, pique the interest of implementers, send a message to the market that there is a real opportunity to engage, and ensure that there is enough money to fund promising opportunities.

Cal Advocates recommends an initial budget allocation of approximately \$4 million per year for the first year, ramping up over a three-year period, with a “not to exceed” limit of \$24 million over the first three years combined.



TURN recommends a budget allocation incremental to the rolling portfolios and not to exceed 5-10 percent of the total rolling portfolio budgets, with an initial four-year timeframe. At current budget levels, this would likely result in a budget of at least \$40 million per year initially.

NEEA recommends an initial budget allocation be granted over a period of five years, but has no opinion on the amounts or whether they are incremental to the existing energy efficiency budgets.

### **3.3.2. Discussion**

As a preliminary matter, we agree with NEEA that a five-year budget allocation for the initial market transformation activities is appropriate. Three years was our previous practice for utility portfolios including primarily resource acquisition programs. Market transformation is inherently longer-term in its focus, and will also require a reasonable amount of startup time given we are taking a different approach here than historically. Therefore, our initial allocation will be for five years.

In addition, in the long-term, there is logic to the TURN suggestion to tie market transformation budgets to the size of the overall energy efficiency portfolio, and a range between five and ten percent seems appropriate, especially during the initial stage. However, because recent energy efficiency annual budget allocations have been somewhat unstable and fluctuating for a variety of reasons, we do not wish to tie the initial market transformation allocation to the MTA directly to the size of the annual energy efficiency portfolios.

Instead, we will make an allocation of \$250 million in total budget, over the first five years. This is roughly five percent of the overall energy efficiency portfolio budget. As suggested by NRDC, this amount should be robust enough

to attract attention of an MTA, as well as market players, while not being an overwhelming amount in a market the size of California.

The five-year period will not begin as soon as the MTA contract is signed, however. Similar to the suggestion of Cal Advocates, we believe that the market transformation approach will take some startup time to be developed and get underway. We also make some changes to the approval process suggested in the MTWG report, where advice letters were recommended as the main vehicle for approval of individual MTIs. Instead of the advice letters, we will initially require an application process, for the first tranche of MTIs. Thereafter, advice letters will likely be appropriate. However, a determination regarding the use of advice letters will be made in the decision disposing of the first tranche of MTIs.

Once the MTA is hired and approved by the Commission and its work begins, the MTA should have a startup administrative budget of \$10 million per year, until such time as the Commission approves the initial tranche of MTIs for deployment. This should allow hiring of staff, some market analysis, and startup work to develop the initial set of proposals for MTIs. We expect that this initial phase could take between six and 18 months, depending on the number of initiatives developed through the intake and ideation process, discussed with the MTAB, and ultimately filed for approval with the Commission.

We will not prescribe the number of types of initial MTIs that the MTA should bring forward to the Commission in an initial application. Rather, we expect it will be an organic process with a great deal of stakeholder engagement. Considering the initial tranche of MTIs in an application process will give the Commission a check-in point to assess implementation of the structure we approve in this decision and how it works initially. The Commission may provide further direction on process, as needed, at that time. The Commission

will make every effort to expedite the review and approval process once the initial tranche of MTIs is filed. We also fully expect that the MTI approval process thereafter will be handled via Tier 2 advice letters, as suggested by the MTWG, but will leave the particulars to be decided in the initial MTA application.

In summary, we expect the initial startup timeline to look something like the following:

- SCE solicitation of an independent, statewide MTA: 6-12 months
- MTA startup period, intake and ideation process for MTIs: 6-12 months
- MTAB engagement and final review: 2-3 months
- Filing of initial tranche of MTIs via application with the Commission, followed by Commission review: 6-9 months
- Elapsed time: 20-35 months, after which five-year budget period begins with the Commission's approval of the first MTI application.

With regard to budget allocation among the investor-owned utilities, we will use the same allocation as we use for the statewide programs currently. For both the initial startup funding of \$10 million per year as well as for the \$250 million once the five-year market transformation program period begins, we will assume that the contribution comes from both electric and natural gas ratepayers. We recognize that the MTWG recommended that there be an allocation for each MTI approved. But, this could get complicated and cumbersome. Initially we will assume a predetermined allocation from the ratepayers of the large electric and gas utilities, consistent with the adopted statewide funding allocation structure. If it turns out that the balance of MTIs recommended by the MTA leans more heavily toward one fuel or the other, we

will consider adjusting the allocation at a later point. The exact statewide funding allocation structure adopted by the Commission is laid out in SDG&E Advice Letter 3268-E-A/2701-G-A.

The proportional allocations for natural gas and electricity are specified in the advice letter, and we will assume an electric and natural gas split of 80% and 20%, respectively, as is most commonly assumed for dual fuel programs.<sup>13</sup> Thus, the funding shares for market transformation administration and initiatives across IOUs will be shown in the right-most column of Table 1 below. Note that we do not allow for a 20 percent deviation (plus or minus) from these target values as we have for statewide energy efficiency programs, but instead require the IOUs to adhere to the funding split shown below.

Table 1. IOU Funding Shares for Market Transformation

IOU	Electric Funding Split*	Gas Funding Split*	Market Transformation Funding Split**
PG&E	44.5%	50.4%	45.5%
SDG&E	15.5%	7.8%	14.0%
SCE	40.0%	0.0%	32.5%
SoCalGas	0.0%	41.8%	8.0%

\*See Table 2 on page 5 of SDG&E Advice Letter 3268-E-A/2701-G-A

\*\*Consistent with a fuel type allocation of 80% electric, 20% gas. See table 3 on page 7 of SDG&E Advice Letter 3268-E-A/2701-G-A.

### 3.4. Cost-Effectiveness Issues

The MTWG report presented two main options to the Commission for threshold requirements governing cost-effectiveness of individual MTIs. While the MTWG recommended continuing to use the dual tests of the TRC and PAC tests, participants disagreed about what the numerical threshold should be. The

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<sup>13</sup> See SDG&E Advice Letter 3268-E-A,2701-G-A, Table 3, at 7.

two options presented were: a 1.25 cost-benefit ratio threshold requirement for the TRC and PAC, or a 1.5 cost-benefit ratio threshold requirement for the TRC and PAC.

The 1.25 cost-benefit ratio threshold was recommended by the following entities: CSE; CLEAResult; Energy Solutions; NRDC; PG&E; Resource Innovations; SBUA; SoCalREN; the Energy Coalition; and TURN. The 1.5 cost-benefit ratio threshold was recommended by the following entities: Coalition for Energy Efficiency (CEE); CodeCycle; Cal Advocates; SDG&E; SoCalGas; and SCE.

The MTWG members also recommended that in the future, the Commission may want to consider whether a portfolio-level threshold applied to the total market transformation portfolio makes more sense than an MTI-specific threshold. However, the MTWG report noted that there could be practical challenges with such an approach, depending on the administrative structure and the process for seeking Commission approvals.

In addition to the individual MTI threshold recommendation, the MTWG presented two options for estimating the preliminary cost-effectiveness of an early-stage MTI that is designed to lead to the adoption of codes and standards. The two options are described as follows:

- The MTA would separately calculate the cost-effectiveness of the MTI and the codes and standards, using the Commission-approved methodologies for each. The values would then be combined to derive a complete estimate, reflecting all anticipated costs and savings. This combination could occur in different ways, such as by calculating a weighted average of each TRC and PAC value, based on the number of years of MTI activity reflected in the different phases, or calculating the arithmetic mean.

- Alternatively, the MTA might calculate the cost-effectiveness of the MTI without codes and standards and determine the savings necessary from the codes and standards period in order to meet the threshold. The MTA could explain why it would be reasonable to expect codes and standards to yield the necessary level of savings to satisfy the cost-effectiveness threshold. This approach might be useful to overcome challenges of calculating codes and standards savings early in the MTI planning process and otherwise avoid the awkwardness of stringing together cost-effectiveness values based on two different methodologies.

The MTWG did not take a position on which of the above options would be preferable.

In addition, several other recommendations related to cost-effectiveness were included in the MTWG report, but were not controversial among members of the group.

#### **3.4.1. Comments of Parties**

In comments in response to the April 10, 2019 ALJ ruling, most parties commented on their preferences for which cost-effectiveness threshold to choose.

CEDMC disagrees with the use of the TRC as the cost-effectiveness metric for market transformation. CEDMC states that the TRC in its current form is simply incapable of guiding the selection of MTIs that will help the Commission achieve California's ambitious energy efficiency goals. CEDMC argues that the TRC attributes virtually all of the participant costs to energy efficiency without considering benefits that are typically the basis for participant decisions to implement energy efficiency. They argue that research consistently shows that customers invest in energy efficiency for any number of reasons that may not be related to the energy benefits. In addition, CEDMC argues that the TRC fails to take into account many benefits such as equity and non-resource policy objectives. Consequently, CEDMC recommends that the Commission defer

consideration of the appropriate metrics and targets for market transformation initiatives until such time as new approaches are considered in the integrated distributed energy resources rulemaking or the integrated resource planning rulemaking.

CLEAResult also disagrees with the application of the TRC to energy efficiency portfolios as the sole measure of success, arguing that it disincentivizes private investment and limits innovation. However, given the way the TRC is used otherwise, CLEAResult would select the 1.25 cost-benefit threshold for MTI purposes here, with the hope that the overall energy efficiency cost-effectiveness framework is changed in the future.

NEEA notes that the cost-effectiveness assessment for MTIs should be different in many dimensions from the methods traditionally used for resource acquisition programs. NEEA mentions factors such as the differential timing of costs and benefits, inclusion of non-energy benefits, and use of a natural market baseline for counter-factual adjustments. NEEA states that in their own work, they use cost-effectiveness as a screening tool, and manage the portfolio of MTIs towards an overall cost-effectiveness target. NEEA also mentions the complex dynamics resulting from the addition of some MTIs in the portfolio and the dropping or scaling back of others, leading to a desire to have total benefits exceed costs by some margin to account for the risk and uncertainty. Therefore, NEEA recommends that the market transformation portfolio be managed separately and not combined or governed by cost-effectiveness criteria designed for managing individual resource acquisition programs.

MCE supports applying the same standard to the market transformation initiatives as to the rest of the portfolio, meaning a 1.25 TRC benefit-cost ratio threshold.

NRDC continues to support the 1.25 benefit-cost ratio threshold, as stated in the MTWG report, noting that this support is because the threshold will be applied to individual MTIs and not a portfolio.

Resource Innovations also supports a TRC threshold of 1.25 benefit-cost ratio, including all of the costs and benefits of MTIs, including any codes and standards changes. They argue that this requirement already includes a sufficient premium, since the increased risk of market transformation is offset by the potential long-term gains.

SBUA also strongly supports a 1.25 TRC threshold because they argue a higher threshold will discourage serving hard-to-reach customer groups.

Finally, TURN also supports the 1.25 benefit-cost threshold, arguing that this already provides a greater risk hedge than for the regular energy efficiency portfolio, because it will be applied on an individual MTI basis and not a portfolio basis.

Cal Advocates favors a 1.5 benefit-cost ratio threshold for individual MTIs, because they also favor inclusion of the benefits of codes and standards adoption in the calculation, which would lead to a moderately higher benefit-cost ratio. Cal Advocates also argues that MTIs are long-term products that pursue a more indirect, and thus more uncertain, path to reducing energy use. Thus, it is likely that some initiatives will be scaled back or ended, and therefore forecasting a higher threshold at the beginning provides a reasonable hedge against uncertain benefits, leading to the pursuit of MTIs with higher potential payoffs.

The Joint IOUs also advocate in comments for the higher 1.5 benefit-cost ratio threshold, arguing that this is appropriate because MTI cost-effectiveness will include codes and standards benefits. Similar to Cal Advocates, the Joint IOUs also argue that MTIs are inherently more prone to risks associated with



uncertain dynamics of intervening in markets over a longer time horizon, and therefore only MTIs with higher potential benefits should be pursued.

With respect to codes and standards costs and benefits being included in the cost-effectiveness calculations, CEDMC states that codes and standards must be included, since it would be self-defeating to exclude those benefits. CEDMC anticipates that most MTIs will eventually lead to a codes and standards outcome and therefore those benefits should certainly be included in the analysis.

The Joint IOUs argue that current cost-effectiveness requirements are too restrictive, not allowing the codes and standards programs to claim savings. They advocate that the Commission modify the regulatory and evaluation framework for calculating and claiming savings from codes and standards advocacy activities, and then incorporate this into the market transformation framework.

#### **3.4.2. Discussion**

As a preliminary matter, we agree with CEDMC that since many MTIs will be designed to result ultimately in changes to building codes and appliance standards, it would be logical to include potential benefits of codes and standards in the calculation of benefits and costs. Thus, for any MTI that is proposed to lead to a code or standard, even if such a code or standard advocacy activity is already wholly or partially addressing a market touched by the new MTI, the codes and standards activity, both costs and benefits, should be included in the cost-effectiveness calculation.

On the larger topic of which cost-effectiveness threshold to set for new MTIs, we do not agree with either the 1.25 or 1.5 TRC/PAC benefit-cost threshold. Individual energy efficiency resource acquisition programs are not

subjected to individual cost-effectiveness thresholds, and we do not believe it is prudent to require this more stringent approach to be applied to MTIs, especially during the nascent stages of this new approach to market transformation. At a minimum, cost-effectiveness should be applied at a portfolio level for market transformation, similar to its application to resource acquisition programs and those with market transformation elements already deployed to date.

However, because we do not yet have a portfolio of MTIs to evaluate on a portfolio basis for cost-effectiveness, we will not impose an up-front cost-effectiveness threshold for individual MTIs at this time. Instead, we will require each MTI brought forward by the MTA to estimate its costs and benefits, using the TRC and PAC tests, as currently configured or potentially updated in the ongoing cost-effectiveness inquiries in the IDER rulemaking. We will also require the MTA to manage its portfolio of MTIs, for the initial five-year implementation period, with an eye toward cost-effectiveness.

Not setting a threshold does not mean that cost-effectiveness is not important. Cost-effectiveness tracking and evaluation will still be required. The portfolio should be chosen with full disclosure of the potential for both greater risk and greater rewards associated with the long-term nature of market transformation.

We will not impose an up-front threshold for the initial five-year implementation, but we will consider imposing additional cost-effectiveness requirements after gaining experience with this mechanism over the next half decade or more. It may also be appropriate, at some point, for a cost-effectiveness approach to be developed that is specific to market transformation. For now, we will consider it as one of many factors associated

with the likelihood of success of the proposed MTIs, and not set a minimum threshold.

### **3.5. Savings Goal Setting and Goal Attribution**

While the MTWG report touched on the topics of goal-setting and goal attribution, how exactly these efforts will be handled and coordinated among resource acquisition programs and MTIs is not spelled out in detail. It is clear that there are number of technical and administrative challenges associated with delineating the savings potential, savings goals, and savings attribution associated with programs and efforts that overlap, especially when they are explicitly designed to do so.

The original August 2018 Staff Proposal on market transformation included the concept that the resource acquisition programs have their net-to-gross ratios frozen for a period of time so that they are not penalized by having an associated market transformation program operating in tandem.

The MTWG report devoted an entire chapter to coordination between MTIs and resource acquisition programs. The chapter began with an overview of a multi-step framework designed to address MTI overlaps with resource acquisition, codes and standards, or emerging technologies programs. The basic framework has five steps:

- Identify overlaps
- Select MTIs to enhance positive and minimize negative overlaps
- Collaboration to enhance outcomes
- Informal dispute resolution
- Formal dispute resolution.

### **3.5.1. Comments of Parties**

A number of parties devote a great deal of attention in their comments to the importance of coordination between MTIs and other energy efficiency programs and efforts. Among those are CLEAResult and CEDMC.

CLEAResult is concerned that a nascent MTI development effort not interfere with the ability of third parties to proceed with their proposed resource acquisition programs in the process already outlined in the rolling portfolios. They emphasize that transparency and stakeholder engagement in the process for selecting MTIs will minimize the potential for conflicts and identify overlaps.

MCE comments that the MTA's primary function should be to coordinate with all of the energy efficiency program administrators to ensure that MTIs are properly incorporated into the overall portfolios, similar to the manner in which codes and standards initiatives are currently integrated within individual business plans but are separately tracked and reported on for cost-effectiveness. MCE emphasizes that the process should be a consultative and collaborative process, as described for the statewide coordinator for statewide programs described in D.16-08-019. Finally, MCE recommends that the MTA be primarily responsible both for the development and facilitation of joint cooperation memos with each program administrator with which an MTI may overlap, as well as for minimizing any potential for negative overlap with preexisting programs.

The Joint IOUs are also concerned about coordination and overlap, and offer in their comments that a Rolling Portfolio Coordination Plan should be required, as was proposed in the original staff proposal from August 2018. They also suggest removal of savings potential from some resource acquisition programs to avoid interference with MTIs, and requiring the affected program administrators to file Tier 2 advice letters to make the necessary adjustments to

account for changes in their portfolios. Finally, the Joint IOUs offer that the stage-gate process itself should allow multiple opportunities for discussion and interaction between the MTIs and any existing resource acquisition programs.

Resource Innovations recommends thinking about market transformation and resource acquisition, as well as emerging technologies and codes and standards, as all being part of the set of tools that can be used during development of the logic model to create long-term change. Thus, they describe the role of the MTA and the MTI to coordinate with the organizations and budgets supporting each of those activities, adding the missing pieces that will allow the MTI to change the market in the long term. Thinking of the role in this manner should help facilitate successful coordination and handoffs, when necessary. Resource Innovations describes the MTIs as “wrapping around” existing activities, intended to enhance, not to replace or disturb. Thus, market transformation serves as a sort of umbrella for all efforts in the market.

Finally, JCEPP/IBEW/NECA comment that overlap alone should not be a concern. Rather, the issue should be whether the overlap creates inefficient duplication or results in an actual conflict.

### **3.5.2. Discussion**

The MTWG report and the comments from parties focus more on the concept of coordination and overlap rather than the particulars. We agree with Resource Innovations in their suggestion to think of market transformation as the umbrella under which all of the energy efficiency activities are taking place, with the MTIs designed to “wrap around,” in many cases, existing interventions in particular markets, in order to fill gaps and form a complete approach to transforming that particular market.

We also agree that the MTA should have the primary responsibility to develop the logic model for each MTI and to coordinate it with existing efforts. Thus, we expect the MTA will spend a great deal of effort and time on coordination efforts, stakeholder outreach, and coordination among program administrators.

Having said this, we are concerned that the MTWG report recommendations do not go far enough to identify the particular areas where overlap and coordination will be critical, and how to handle them. In particular, we are concerned about the process for setting savings goals and attributing savings to particular programs and program administrators.

In general, we prefer that individual MTIs set goals at the time that they are formulated, with goals generally incremental to the other energy efficiency resource acquisition goals, because the MTIs should be going after savings that could not be achieved within the normal portfolio. But these dynamics are complex, and vary in different markets where interventions are already underway. Likewise, we would like to avoid disputes over which initiative or program created the energy savings, preferring to celebrate the victory without arguing over attribution. However, the existence of incentive mechanisms for existing program administrators may complicate this effort.

We generally adopt the approaches recommended by the MTWG in the framework attached to this decision. However, we think more detailed work may be needed to figure out how to set goals and how to attribute savings to various effort under the overall market transformation umbrella in each market, as well as how to ensure minimal duplication or negative overlap. In this, we agree with JCEEP/IBEW/NECA that overlap itself is not necessarily a problem, though conflict will be.

To continue working on these issues, we ask that the CAEECC consider keeping the MTWG in place to begin addressing these types of issues while the MTA hiring process is begun. Once the MTA is in place, that entity should begin an effort to formalize some of these coordination approaches and issues.

We also agree that, in general, we prefer a collaborative and coordinated approach to all of these issues, but the Commission's informal or formal dispute resolution processes may be used, if they become necessary.

#### **4. Comments on Proposed Decision**

The proposed decision of ALJ Julie A. Fitch in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

#### **5. Assignment of Proceeding**

Liane M. Randolph is the assigned Commissioner and Julie A. Fitch and Valerie U. Kao are the assigned ALJs in this proceeding.

#### **Findings of Fact**

1. The existing RENs, including BayREN, SoCalREN, and 3CREN, all had their business plans reviewed and approved by the Commission recently in D.18-05-041, and are approved to run through the current business plan period through 2025, unless the Commission requires new business plans.
2. In D.12-05-015 and D.12-11-015, the original RENs were discussed as "pilot" program administrators, in order to test the viability of the approach.
3. Uncertainty about the future of RENs as administrators can create disincentives for customers or partner organizations to participate with RENs,

lowering their chance of succeeding at delivering energy savings and other benefits.

4. Local government entities, including RENs, have a unique and appropriate role in the oversight of energy efficiency programs that should be recognized and considered when choosing energy efficiency program administrators.

5. Promoting RENs as program administrators is not inconsistent with the Commission's other priorities for statewide approaches; the appropriateness of each type of approach depends upon the market and particular activities being addressed within the energy efficiency landscape, to determine which style of program and program administration approach makes the most sense.

6. The energy efficiency program landscape in California is complex. All geographic overlap cannot be prevented, but the Commission should require coordination and seek to minimize negative overlap that could lead to customer confusion or duplicative administrative costs. Negative overlap can be minimized with JCMs among administrators operating in the same geographic areas.

7. CCA energy efficiency programs have begun since the Commission originally invited and approved REN proposals. CCAs and RENs conducting energy efficiency activities have the potential for overlap and the need for coordination.

8. RENs were originally designed to fill gaps in utility portfolios, pilot potentially scalable approaches, and/or to serve hard-to-reach customers.

9. The definition of hard-to-reach customers was refined in D.18-05-041.

10. Because RENs are designed to fill gaps and serve hard-to-reach customers, and because their portfolios are smaller, their program offerings are likely to be naturally less cost-effective than the larger portfolios of the utilities.



11. D.12-11-015 and D.14-10-046 both contain requirements for the mechanics of how the utilities perform the fiscal agent role on behalf of RENs.

12. Using the CAEECC as a forum, a MTWG brought forward a joint proposal for a market transformation framework to the Commission in the form of a March 29, 2019 motion from NRDC, which contained many consensus items.

13. The Commission's intervenor compensation program is designed to compensate parties for their contributions to Commission decisions, not to energy efficiency market transformation program design and delivery.

14. The CAEECC's MTWG did not reach consensus on what type of MTA should be designated to administer its proposed market transformation framework.

15. The energy efficiency landscape in California is changing, with a much larger number of administrators and program designers and implementers than in the past.

16. Past energy efficiency portfolio cycles were typically three years; market transformation is intended to have a longer time horizon than resource acquisition programs.

17. Many market transformation activities are logically related to the development and implementation of building codes and appliance standards.

18. Cost-effectiveness thresholds for energy efficiency are usually applied by the Commission at the portfolio level, not at the individual program level.

### **Conclusions of Law**

1. BayREN, SoCalREN, and 3CREN should continue operation of their portfolios approved in D.18-05-041 unless the Commission requires new business plans.

2. The existing RENs have been in place long enough and have shown value to warrant removal of the “pilot” designation from RENs. RENs should continue to be monitored and evaluated according to the success of their programs and as evaluated periodically, but should no longer face uncertainty about whether RENs as a concept will continue to be considered by the Commission.

3. The Commission should consider the business plans of existing and potential new RENs alongside other administrators when new business plans are required, based on the quality of their proposals.

4. The Commission should make special provision for the role of local governments in the energy efficiency landscape either through RENs or LGPs, as appropriate and desired by individual local government entities.

5. The Commission should allow new REN business plan proposals to be filed as motions in the open energy efficiency rulemaking at any time, as long as they meet certain criteria, including: being vetted during at least one CAEECC meeting, and including responses to the stakeholder feedback in the motion; negotiating JCMs with all other energy efficiency program administrators with whom their proposals would overlap, and including those JCMs in the motion; representing more than one local government entity; including a description of the new REN governance structure of the REN in the motion; and including cost-effectiveness estimates and proposed energy savings goals.

6. The Commission should set energy savings goals and metrics for RENs at the time that their business plans and budgets are approved.

7. RENs should be required to negotiate JCMs with all program administrators with whom their program activities will overlap, including other RENs, utilities, and CCAs. RENs should also be encouraged to coordinate with

third parties delivering utility energy efficiency programs, if necessary or useful for avoiding program confusion or overlap.

8. The criteria for RENs approved in D.12-11-015 is still appropriate, except that RENs should be able to fill gaps in CCA program portfolios, in addition to utility portfolios.

9. At this time, the Commission should not expand the criteria for RENs to include “underserved” customer segments, since “underserved” has not been adequately defined. The Commission may consider this issue in the future.

10. The Commission should not set a cost-effectiveness threshold requirement for REN business plans.

11. The Commission should not adopt a requirement for an arbitrary percentage improvement in REN cost-effectiveness over time, because it would serve to disincentivize cost efficiencies at the beginning of a business plan period.

12. Public Utilities Code Section 381 requires the Commission to fund cost-effective energy efficiency and conservation activities, but does not prohibit the Commission from funding other energy efficiency activities it finds to have value.

13. REN program activities should not be required to be confined to any particular program area or customer segment.

14. Utilities and RENs should be allowed to depart from the fiscal agent mechanics included in D.12-11-015 and D.14-10-046, if the REN and the utility mutually agree. Otherwise, the provisions of the prior decisions should prevail and/or the REN or utility should seek further Commission guidance via a petition to modify.

15. Administrator costs associated with the utility's performance of the fiscal agent role on behalf of a REN should be included in the cost-effectiveness calculations of the utility's overall energy efficiency portfolio.

16. The Commission should adopt the MTWG market transformation framework in most regards, except as otherwise indicated in this decision and Attachment A.

17. The Commission should require a MTAB that is paid hourly for their work and has their expenses covered, but the Commission's intervenor compensation program is not the appropriate source of funds for this purpose. Instead, funding to support the MTAB should come from approved administrative budgets for market transformation programs.

18. Members of the MTAB should be diverse and represent a broad spectrum of perspectives; the MTAB members should be recruited by the designated MTA, but should be approved by the Commission via a Tier 2 advice letter.

19. The Commission should select a single, independent statewide MTA to administer the market transformation framework in California and to coordinate with similar entities in other states. Development of the appropriate organization for this purpose is likely to take a considerable amount of time.

20. Non-profit entities have had success administering market transformation frameworks in numerous other states around the country.

21. SCE is the most logical utility to contract with a single, independent, statewide MTA, both because of its inherent size and infrastructure, as well as its status as currently financially solvent.

22. The Commission should approve market transformation initiatives in at least five-year cycles, to ensure long-term focus and attention.

23. The Commission should allocate an initial start-up administrative budget to a new MTA, followed by an implementation budget for five years, beginning once the initial set of MTIs is approved by the Commission.

24. The benefits and costs of activities related to codes and standards development and implementation should be included in the cost-effectiveness calculations for MTIs where they are logically related.

25. The Commission should not set a threshold for cost-effectiveness of MTIs; each MTI should be evaluated by the Commission on its merits, with cost-effectiveness being one of the considerations for approval. Otherwise, the Commission would be setting a higher bar for market transformation initiatives than for other energy efficiency programs.

26. It is appropriate to set savings goals for individual MTIs at the time they are initially approved by the Commission.

27. There may be some complex goal-setting and goal-attribution issues associated with market transformation that could benefit from further discussion at the CAEECC in advance of the hiring of a new, independent, statewide MTA. Once the MTA is in place, it will likely pursue additional work in this area.

## **O R D E R**

### **IT IS ORDERED** that:

1. The Bay Area Regional Energy Network, the Tri-County Regional Energy Network, and the Southern California Regional Energy Network are authorized to continue to operate with funding under their energy efficiency business plans approved in Decision 18-05-041 until the end of the current business plan period or until the Commission orders the filing of new business plans, whichever comes first.

2. A proposal for a new regional energy network (REN) may be brought to the Commission at any time via a motion in the open energy efficiency rulemaking. A proposed REN is required to represent more than one local government entity and must present its business plan proposal to at least one meeting of the California Energy Efficiency Coordinating Committee (CAEECC) prior to filing it with the Commission. The REN motion to the Commission must also contain:

- (a) A description of its proposed governance structure.
- (b) A Joint Cooperation Memorandum, as defined in Decision 18-05-041, with each existing program administrator with whom the new REN's proposed activities will overlap.
- (c) A written summary of feedback received from the CAEECC meeting and any other stakeholder input, along with the response or changes that were made as a result of the input.
- (d) A proposed set of energy savings targets and metrics.
- (e) An estimate of benefits and costs according to the Total Resource Cost and Program Administrator Cost tests.

3. All regional energy networks, once approved by the Commission, shall negotiate and file Joint Cooperation Memorandums, as defined in Decision 18-05-041, Ordering Paragraph 38, annually, for any activities that overlap with the activities of utility program administrators, community choice aggregators, and other regional energy networks.

4. To be approved by the Commission, a regional energy network business plan must propose activities that meet at least one of the following criteria:

- (a) Activities that utility or community choice aggregator (CCA) program administrators cannot or do not intend to undertake.
- (b) Pilot activities where there is no current utility or CCA program offering, and where there is potential for scalability to a broader geographic reach, if successful.

- (c) Activities serving hard-to-reach markets, where or not there is another utility or CCA program that may overlap.

5. A utility serving as a fiscal agent for a regional energy network (REN) and the REN may depart from the requirements in Decision (D.) 12-11-015 and D.14-10-046 regarding the mechanics of contracting and funding if they mutually agree. If not, then the provisions of D.12-11-015 and D.14-10-046 still govern or they may seek further Commission guidance using appropriate mechanisms.

6. Southern California Edison (SCE) shall act as the statewide lead and contracting and fiscal agent, responsible for selection and administration of an independent, statewide, market transformation administrator (MTA). SCE shall undertake this task with support from the statewide procurement review group and in coordination with Commission staff. SCE shall keep its solicitation open, once launched, for the purpose of hiring the MTA, for at least three months. SCE shall also follow the requirements for third-party solicitations included in Decision 18-01-004, including filing of the selected contract as a Tier 2 advice letter.

7. The Market Transformation Administrator (MTA) shall have an initial administrative budget of \$10 million per year. Once the initial tranche of market transformation initiatives (MTIs) is approved by the Commission as further delineated in Ordering Paragraph 9 below, the MTA shall have a five-year budget for MTIs of \$250 million. These amounts shall be funded based on the statewide funding allocation laid out in Table 1 of this decision.

8. The independent, statewide Market Transformation Administrator (MTA), once selected, shall manage a process to designate a Market Transformation Advisory Board (MTAB), to advise it on its plans and activities. The MTAB membership shall be diverse and from a broad set of perspectives within the

national or international energy efficiency community. The proposed membership and conflict of interest rules for the MTAB shall be developed in consultation with Commission staff and shall be filed in a Tier 2 advice letter. Members of the MTAB, once approved, shall be compensated for their expenses and their time, on an hourly basis, out of administrative funds designated to the MTA for administration of the market transformation framework.

9. No later than 18 months after the contract begins with the Market Transformation Administrator (MTA), Southern California Edison shall file, on behalf of the MTA, an application with the Commission for approval of the initial tranche of market transformation initiatives (MTIs). The MTA's initial five-year implementation period, along with its \$250 million budget, will begin after the Commission approves or modifies the application for the initial set of MTIs and gives further direction for the process for the proposals for additional MTIs.

10. Each market transformation initiative proposed by the market transformation administrator shall report its expected costs and benefits according to the total resource cost and program administrator cost tests, and shall include costs and benefits associated with related development and implementation of building codes and appliance standards, if applicable.

11. Further details of the approved market transformation framework approved in this decision are included in Attachment A. The market transformation administrator shall follow the processes outlined in Attachment A of this decision.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.



# Attachment A

## Adopted Market Transformation Framework

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## Acronyms

Acronym	Definition
3P or 3Ps	Third party/parties
3PI or 3PIs	Third party implementer(s)
ABAL	Annual Budget Advice Letter
ADR	Alternative dispute resolution
AMI	Advanced Metering Infrastructure
C&S	Codes and Standards
CAEECC	California Energy Efficiency Coordinating Committee
CCAs	Community Choice Aggregators
CE	Cost-effectiveness
CET	Cost-effectiveness tool
CPUC	California Public Utilities Commission
EE	Energy efficiency
EM&V	Evaluation, Measurement and Verification
ESRPP	ENERGY STAR® Retail Products Platform
ET	Emerging Technologies
ETCC	Emerging Technologies Coordinating Council
ETP	Emerging Technologies Program
GHG	Greenhouse gas
IDSM	Integrated demand-side management
IE	Independent Evaluator
IOUs	Investor-owned utilities
IRC or IRCs	Initiative Review Committee(s)
IRP	Integrated Resource Planning
ISSM	Integrated Standards and Savings Model
ME&O	Marketing Education and Outreach
MT	Market transformation
MTA	Market Transformation Administrator
MTAB	Market Transformation Advisory Board
MTI(s)	Market transformation initiative(s)
MTWG	Market Transformation Working Group
NEEA	Northwest Energy Efficiency Alliance
NMEC	Normalized Metered Energy Consumption
O&M	Operations and Maintenance
OTF	Open Text Field
PA(s)	Program Administrator(s)
PAC	Program Administrator Cost Test
PG&E	Pacific Gas and Electric
POU	Publicly owned utility
PRG	Procurement Review Group
RA	Resource Acquisition
RENs	Regional Energy Networks
RFA	Request for Abstract

RFP	Request for Proposal
SDG&E	San Diego Gas & Electric
SME	Subject matter expert
TRC	Total Resource Cost Test
WE&T	Workforce Education and Training

## Section 1: Definition of Market Transformation

The CPUC defines market transformation as follows: “Market transformation is long-lasting, sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where continuation of the same publicly-funded intervention is no longer appropriate in that specific market. Market transformation includes promoting one set of efficient technologies, processes or building design approaches until they are adopted into codes and standards (or otherwise substantially adopted by the market), while also moving forward to bring the next generation of even more efficient technologies, processes or design solutions to the market.”

See: Decision 09-09-047 pg. 88-89, Sept. 24, 2009  
(<http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/107829.PDF>).

## Framework Structure

This Framework is structured as follows:

- **Section 2: Market Transformation Initiative Principles, Guidelines, & Strategies** — Details the principles, guidelines, and strategies for market transformation initiatives (MTIs).
- **Section 3: Market Transformation Stage-Gate Proposal & Decision Criteria** — Outlines the vision for how MT should function within a state-gate framework, characterized by three phases and seven stages.
- **Section 4: Stakeholder Roles & Responsibilities** — Defines the roles and responsibilities of key stakeholders vis à vis the state-gate framework including MT Administrator(s), the MT Advisory Board, and Initiative Review Committee(s).
- **Section 5: Administration** — Discusses the role and mechanics of a Single, Independent Statewide Administrator.
- **Section 6: Budget** — Discusses how MTI budgets should be set and funded.
- **Section 7: Market Transformation Cost-Effectiveness (CE) Framework** — Discusses the requirements for proposing and evaluating MTI cost-effectiveness.
- **Section 8: Coordination Between Market Transformation Initiatives and Resource Acquisition Programs** — Delineates a process for reducing and reconciling any potential conflicts between new MTIs and existing resource acquisition (RA) programs.

The document’s appendices include:

- **Appendix A: Stage-gate Criteria**

- **Appendix B: Preliminary Intake Application Form**
- **Appendix C: Preliminary Content Guidance for Market Transformation Accord/Plan**
- **Appendix D: Stage-gate Schematic**

## **Section 2: Market Transformation Initiative Principles, Guidelines, & Strategies**

### **Introduction**

MTIs should conform to the high-level principles as defined in this document and align with existing State and Commission policy direction (e.g., policies that advance energy efficiency, equity and workforce objectives, as well as greenhouse gas (GHG) emission reduction targets). “High-level principles” describe program goals that every MTI should aim to achieve. “Guidelines and Strategies” provide guidance on how to implement the intent of the high-level principles.

### **High-Level Principles**

MTIs must:

- 1) Drive incremental savings that achieve the state’s energy efficiency (EE), equity, and GHG reduction goals.
- 2) Be managed cost-effectively as a portfolio under the MT framework and just and reasonable for ratepayers to fund.
- 3) Use a stage-gate process for development and deployment.

MTIs should also meet the following principles, while acknowledging that some principles may not be applicable to each and every MTI:

- 4) Complement and coordinate with Rolling Portfolio programs.
- 5) Support and not stifle innovation.
- 6) Leverage existing processes and forums where appropriate.
- 7) Integrate strategies to maximize equity.
- 8) Be informed, measured, and evaluated by data and information.
- 9) Include metrics to assess progress toward MTI and State and Commission policy goals.



- 10) Be vetted in an inclusive, open, and transparent manner.
- 11) Ensure that the energy efficiency workforce is adequately trained, skilled, and available.
- 12) Synchronize with the evolving long-term structural changes to California's energy production and consumption.

## Market Transformation Guidelines & Strategies

Guidance on how to implement the intent of the high-level principles.

- 1) MTIs should not be limited to technologies and should consider additional approaches that strive to meet the State's goals (e.g., behavior, equity, workforce, code compliance strategies, etc.). *This supports principles 1 and 3.*
- 2) MTIs should support and complement additional State and Commission goals to achieve substantial GHG emissions reductions, such as through demand response, integrated demand-side management (IDSM), and strategies that ensure grid stability. *This supports principles 1 and 3.*
- 3) MTI Plan development should not be overly expensive or prevent timely action and important learnings. *This supports principle 4.*
- 4) MTIs should consider how to transform the EE marketplace to maximize energy savings, health, affordability, and job access for disadvantaged communities. *This supports principle 7.*
- 5) MTIs should have timely feedback and evaluations to enable pivoting strategies if needed in support of continuous improvement. *This supports principle 8.*
- 6) MTIs should be vetted in a transparent way and include stakeholder, community, and potential participant feedback processes as applicable. *This supports principle 10.*
- 7) MTIs must make commitments that adequately cover the time expected to realize MT to effectively address market barriers and facilitate functional industry partnerships. *This supports principle 1.*
- 8) MTIs should consider how to transform the EE marketplace to ensure both the availability and utilization of a well-trained and suitability-skilled EE workforce. *This is related to principle 11.*
- 9) MTIs should be designed to address or at least complement the likely long-term structural changes to California's energy industry including relying on carbon-free resources coupled with efficient electrification. *This supports principle 12.*

## Section 3: Market Transformation Stage-Gate Proposal & Decision Criteria

### Introduction

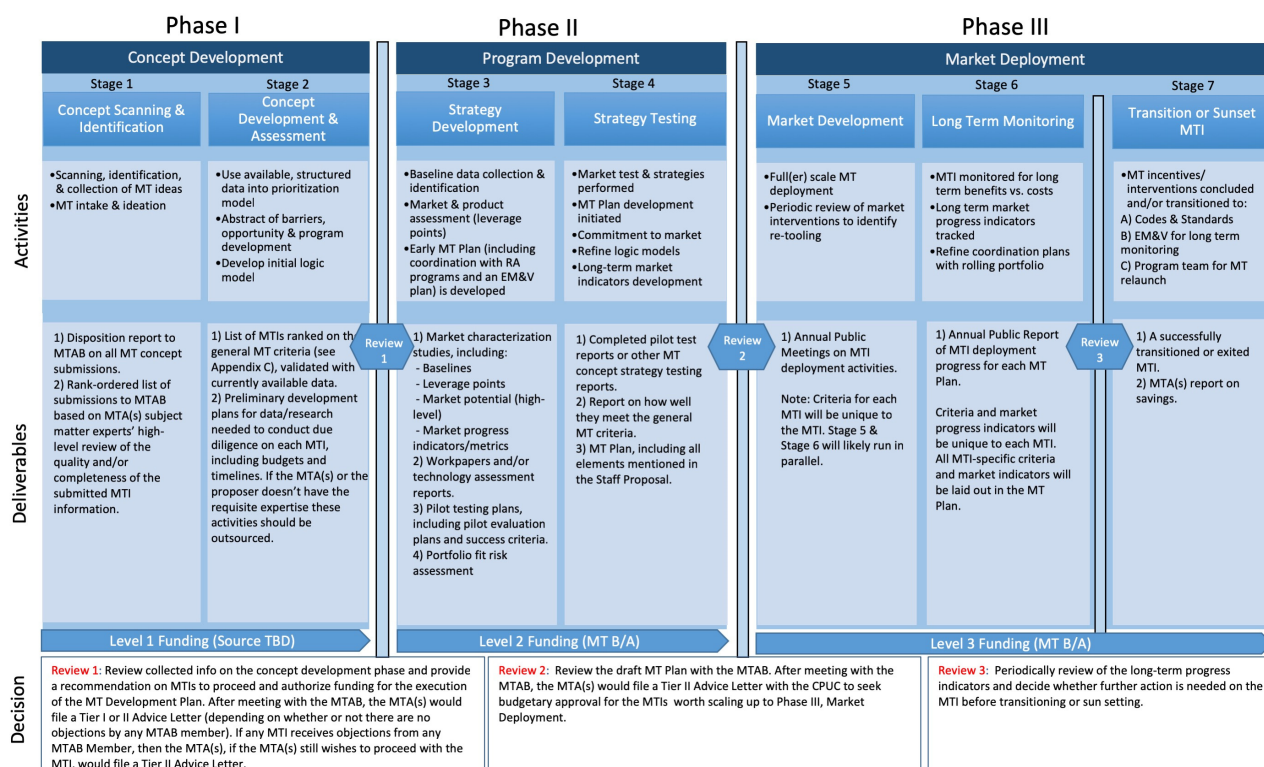
Stage-gate processes have been in use with varying degrees of formality in every industry, including the research and product development teams within the investor-owned utilities (IOUs). This section includes a description of how stage-gates should be applied to MTI development and funding in order to understand how the MT Administrator (MTA) will ensure that an MT idea is worthy of being implemented across the service territories of the four large IOUs. These stage-gates describe critical decision-making points and expected activities at each stage including ideation, potential intervention testing and refinement, MT Plan<sup>1</sup> development, and sunset or transition of both unsuccessful and successful MTIs. The stage-gate depiction is also intended to help the MTA and stakeholders anticipate what different data and sets of expertise might be needed at each stage.

The stage-gate process is highlighted below along with a detailed description of each phase, the corresponding activities, deliverables, and key review points at each phase. Stage-gate criteria are discussed in Appendix A.

Figure 1 shows a depiction of the process with three overarching phases and seven stages.

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<sup>1</sup> An MT Plan is the blueprint/roadmap of the MTI that includes but is not limited to a timeline, metrics, intended outcomes, coordination with RA programs, and an Evaluation, Measurement and Verification (EM&V) plan. It is analogous to Commission Staff's "Market Transformation Accord" described in the ALJ Ruling and attachment issued August 29, 2018.

**Figure 1: Stage-gate Process Schematic**

See Appendix B for a larger version of this schematic.

## Phase I: Concept Development

### Stage 1a: Ideation & Intake

The ideation process focuses on the intake and collection of concepts for possible MTIs. In this process, the MTA should manage a portal where third parties (3Ps), industry actors, or other stakeholders are invited to submit ideas for MTIs via a standardized intake form.<sup>2</sup> The intake form will include an initial set of screening questions and multiple levels of questions to determine the amount of pre-existing documentation that is available, along with the level of maturity of each concept.

All ideas—regardless of the source—should be submitted for consideration via the intake form. For the initial round of ideation, the portal for completed intake forms should remain open for at least 2 months. It is acknowledged that the MTA may need to help guide or develop MTI proposals to fully meet the MT criteria.

<sup>2</sup> See Appendix C for an illustrative example. The intake form will need to be finalized by the MTA in consultation with the Market Transformation Advisory Board (MTAB).

**Stage 1b – Concept Scanning & Identification**

At this scanning and identification stage, the MTA scans submitted ideas, searching for those that might be developed into productive MTIs based on a clear, pre-defined set of criteria<sup>3</sup> designed to identify market gaps and opportunities. Considering the need for transparency, fair treatment, and a clearly defined and reportable rationale for decision-making, these criteria will be monitored throughout the life of each MTI. Setting these criteria will also ground the objective of each MTI to ensure the original justification for the MTI does not become obsolete.

Considering the need to manage financial risks throughout, the Concept Development Phase leverages and is driven by existing, readily available data. In some cases, low-cost research and development may be warranted. Further, the previously described intake form will also allow the MTA to rank order and prioritize the review of submissions based on data availability and verifiable claims to be considered for scaling up to Stage 2. Stage 1 concludes with a rank ordered list of MT opportunities based on research and analyses expanding on the information provided in the intake form.

For any ideas not selected to move forward, the MTA should provide a short explanation to the MTAB<sup>4</sup> and the proposer including rationale for the decision.

**Stage 1 Deliverables:**

- 1) Disposition report to the MTAB on all MT concept submissions.
- 2) Rank-ordered list of submissions to the MTAB based on MTA's review; including expert opinion, data analyses, and potentially low-cost research and development, into the potential for success of the submitted MT Initiative ideas.

**Stage 2 – Concept Development & Assessment**

The MTA at this Stage begins the initial due diligence of vetting the top ideas with the Initiative Review Committees (IRCs) as applicable,<sup>5</sup> conducting more extensive reviews, including low-cost research and analyses, and assessing the potential for leverage points<sup>6</sup> within the target markets for intervention strategies and opportunities.

The MTA, drawing upon internal and external resources and data, may employ a prioritization model,<sup>7</sup> or any other well-articulated, transparent approach to rank order and prioritize ideas from pre-defined criteria to emphasize opportunities that meet agreed upon priorities and objectives. The use of a prioritization model and the relative weighting of the criterion will be determined by the MTA in

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<sup>3</sup> Ideally, the general criteria for MTIs remain essentially the same throughout all three Phases but differ in the level of rigor with which they are assessed.

<sup>4</sup> Market Transformation Advisory Board. See Section 4 for a complete definition.

<sup>5</sup> See Section 4 for a complete definition.

<sup>6</sup> The term "leverage point" refers to, "Venues of concentrated market activity, where a large portion of market exchanges occur. At these points, a relatively small and strategic intervention can influence large numbers of transactions, decisions or behaviors far more efficiently and cost-effectively than individual incentives." See: Administrative Law Judge's Ruling Seeking Comment on Market Transformation Staff Proposal, Rulemaking 13-11-005, August 29, 2018.

<sup>7</sup> A prioritization model is an example of a structured approach to enable alignment on key criteria including feasibility, policy alignment, Portfolio fit, savings potential, and cost-effectiveness.

consultation with the MTAB but the rationale for such a structured approach is to provide equity and transparency into all ideas presented as well as the ability to clearly document and report on data-driven decisions.

To gauge potential leverage points and the feasibility of intervention strategies, the MTA may undertake initial conversations with potential industry partners. This process will result in a greater understanding of key criteria and outlines of potential logic models and is likely to yield a further winnowed list of potential MTIs.

Stage 2 is expected to take place over several months following completion of Stage 1. However, MTIs in subsequent Phases will likely be on individualized timeframes, as the pace of any one MTI moving through the stage-gate process may vary based on the characteristics of each MTI.

Stage 2 concludes with a refined list of MTIs, initial identification of intervention strategies, and the initial development of logic models and intervention theories in advance of Review 1.

#### Stage 2 Deliverables:

- 1) MTA provides a list of MTIs recommended to move into Phase II, ranked on the general MT criteria (see Appendix A). A reasonable case for each recommendation should be made, leveraging data and analyses.
- 2) Preliminary development plans for data/research needed to conduct full due diligence on each MTI recommended to move forward to Phase II, including budgets and timelines. If the MTA or the proposer doesn't have the requisite expertise, these activities should be outsourced.

### **Review 1**

The MTA will bring recommendations to the MTAB on which MTIs it believes should advance to Phase II. The MTAB will review the MTA recommendations and supporting data gathered in the Concept Development Phase and provide feedback to the MTA on which MTIs should proceed into Phase II: Program Development.

After meeting with the MTAB, the MTA will issue a public report with the following elements:

- Documentation of the intake ideation process and results
- Rationale for MTIs that the MTA recommends advancing to Phase II
- Explanation of the feedback provided by the MTAB on the MTAs initial recommendations and what actions were taken as a result; or, if no actions were taken, that should be acknowledged and an explanation provided
- Plans for Phase II activities for each MTI selected to advance, including a detailed description of activities, budgets and timelines.

There is no formal approval of this MTA Phase I Report, but it will be made available to the public and to the service list of R.13-11-005 or its successor. In addition, the Phase II activities, budgets and timelines for selected MTIs should be reflected accordingly in the Annual Budget Advice Letter that the lead IOU will submit on behalf of the MTA. (See Section 6 for details)

## Phase II: Program Development

In Phase II, the MTA will collaborate with the MTAB and Initiative Review Committee(s) (IRCs), where applicable, to conduct further market research and product assessments, and identify critical gaps in knowledge.

### Stage 3 – Strategy Development

Stage 3 is where a refined logic model is developed that identifies key market actors and their roles, resulting in a hypothesized strategic intervention for possible Market Deployment of the MTI.

A Bass Diffusion Model<sup>8</sup> may be developed to assist with baselining and setting of short- and long-term milestones.

An Evaluation, Measurement and Verification (EM&V) Plan is also developed in Stage 3, specifying the methodology for savings claims and plans to verify the effectiveness of strategies and the accuracy of the initial program logic model. The EM&V Plan should be developed with the support of an independent EM&V subject matter expert (Evaluator) that is not financially interested or otherwise involved in program implementation. The Evaluator is also responsible for monitoring market developments, providing market evaluation reports on market dynamics and characteristics over time, and providing non-biased evaluation data for decision-making.

Stage 3 concludes with a defined market baseline against which market changes and savings will be measured and evaluated, and the initial development of a Rolling Portfolio coordination plan and other required elements of the MTI Plan.

#### Stage 3 Deliverables:

- 1) Market characterization studies, including:
  - Baselines
  - Leverage points
  - Market potential (high-level)
  - Market progress indicators/metrics (likely based on the leverage points and overall market characteristics).
- 2) Workpapers and/or technology assessment reports, as applicable.
- 3) Pilot testing plans, including pilot evaluation plans and success criteria.
- 4) Portfolio fit risk assessment (projections of savings potential, savings likelihood, and impact on EE Portfolio goals and existing EE programs).

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<sup>8</sup> A Bass Diffusion Model is a widely used forecasting tool to determine the speed and timing of market adoption. This modeling approach is consistent with the model used in forecasting for the EE Potential and Goals studies in California.

**Stage 4 – Strategy Testing**

At this Strategy Testing Stage, the MTA will collaborate with the IRCs<sup>9</sup> (where applicable) to conduct market tests of the hypothesized strategic intervention(s) per the results of Stage 3. In some cases, market tests may determine that an MTI is not feasible to deploy as initially planned, or the market has deviated from the initial logic model assumptions and criteria. In these cases, the MTA should abort further spending on the MTI. For each MTI that is discontinued due to strategy testing outcomes, the MTA should provide clear documentation on the rationale for discontinuation. The MTA reports on these matters should include all feedback and recommendations received from the MTAB related to the performance of the MTI.

For MTIs that are not discontinued, an MTI Plan will then be developed by the MTA. The MTA should ensure each remaining MTI remains in alignment with the initial criteria, applying insights from market test results in preparation for the initiatives being proposed to move to Phase III.

The MTI Plan will describe specific anticipated market benefits including but not limited to:

- elimination of barriers to EE,
- potential to scale,
- desired time to reach specified levels of market adoption/saturation, and
- other variables that would influence the Bass Diffusion curve.

Stage 4 concludes with the filing of an MTI Plan Application with the Commission for approval to progress an MTI into Phase III. Note that the lead IOU will file the MTI Plan Application with the Commission on behalf of the MTA.

**Stage 4 Deliverables:**

- 1) A complete MTI Plan, including all elements presented in Appendix C: Content Guidance for Market Transformation Initiative Plan
- 2) Completed pilot test reports or other MT concept strategy testing reports.
- 3) Report on how well each MTI met the general MT criteria.

**Review 2**

The lead-IOU will submit to the Commission an Application for approval of Phase III MTI Plans. MTI Plan Applications will be submitted by the lead IOU on behalf of the MTA. Multiple proposed MTI Plans may be submitted in a single Application.

The MTA will coordinate with the MTAB throughout Phase II activities for each MTI. The MTA will meet with the MTAB on a regular basis to present interim findings for review and feedback. When the MTA is nearing completion of a proposed MTI Plan, the MTA shall meet with the MTAB and solicit final

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<sup>9</sup> Initiative Review Committee. See Section 4 for complete definition.

feedback and recommendations on the Plan. The feedback and recommendations offered by the MTAB on final MTI Plans shall be included in the MTI Plan Application submitted to the Commission.

### **Phase III: Market Deployment**

The MTA will continue to collaborate and engage with the MTAB and the IRCs (where IRCs are applicable) throughout Phase III.

#### **Stage 5 – Market Development**

All MTI Market Development activities, including EM&V activities, progress milestones, reporting, and criteria or process for making strategy adjustments, should conform to the approach detailed in the approved MTI Plan.

##### Stage 5 Deliverable:

- 1) Annual Public Meetings on MTI deployment activities. Criteria for each MTI will be unique to the MTI (see Stage 6: Long-Term Monitoring). Stage 5 and Stage 6 will likely run in parallel.

#### **Stage 6 – Long-Term Monitoring**

The MTA, with support from an independent EM&V Evaluator, will track the metrics and milestones per the methods and approach established in the approved MTI Plan.

##### Stage 6 Deliverables:

- 1) Budget reporting and forecasts filed with the Commission through the MT Annual Budget Advice Letter (ABAL).
- 2) Public Reporting of the metrics, milestones and progress of the MTI per the schedule and specifications of the approved MTI Plan.

### **Review 3**

Guidance for the MTI Plan (See Appendix C) includes adoption of specific milestones that are to be tied to MTA incentive awards. These same milestones, when missed, will also trigger a process of reconsideration of continued funding authorization. Where a reconsideration of funding is triggered, the MTAB will present recommendations to the MTA with respect to prudent next steps and the continuation of funding; these recommendations will also be made public to be considered by the Commission.

#### **Stage 7 – Transition or Sunset MTI**

Per the details of the MTI Plan, when the goals of the MTI are achieved and the envisioned end-state of the market is accomplished, the MTA will implement the market transition, or exit strategy.

##### Stage 7 Deliverables:

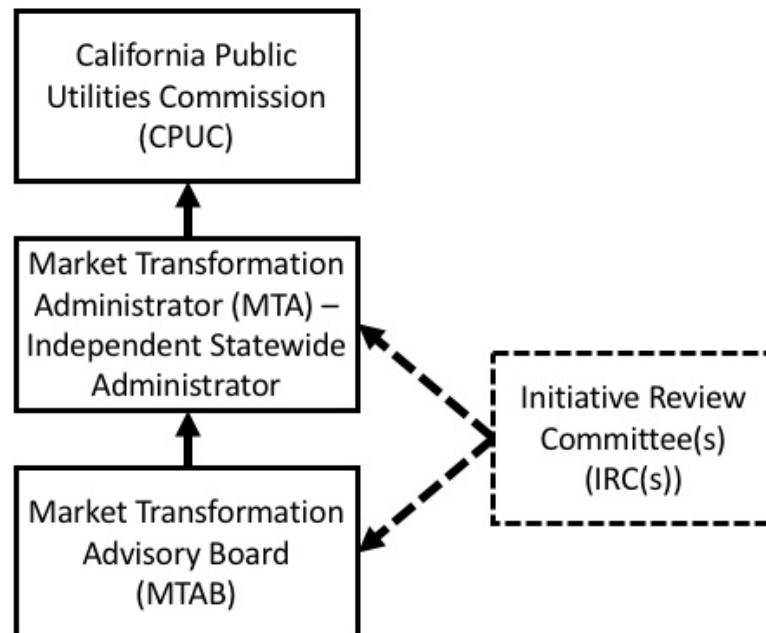


- 1) A successfully transitioned or exited MTI.
- 2) Final MTA report on savings.

## Section 4: Stakeholder Roles & Responsibilities

This section describes the various groups engaged in MT and defines their roles and responsibilities. See Figure 2.

*Figure 2: Schematic of Stakeholder Roles & Responsibilities*



### Definitions

- **Market Transformation Administrator or MTA:** The entity responsible for overseeing the stage-gate process including the scanning, ranking, selecting, and overseeing of the implementation of MTIs.
- **Market Transformation Advisory Board or MTAB:** A group of individuals from organizations with a long-term background in California or national EE; broad-based interest in outcomes of California or national EE proceedings; and solid understanding of MT principles assembled to advise California’s MTA and provide recommendations.
- **Initiative Review Committee(s) or IRC(s):** A group of technical advisors assembled (if needed) for specific MTIs.

### Role of the Market Transformation Administrator (MTA)

#### Phase I: Concept Development

In this initial Phase, there should both be an open call for ideas to all stakeholders, and the MTA should be actively scanning for MT opportunities. All of the identified concepts should be submitted for consideration using a standardized set of information requirements, and the MTA will assess the concepts (as described in Section 3<sup>10</sup>) based on agreed upon criteria. The concepts will be summarized and scored by the MTA and presented to the MTAB with recommendations by the MTA on which proposals should move forward.

Following review by the MTAB, the MTA will compile a Phase I Report to be made available to the public and the service list of R.13-11-005 (or its successor) detailing the approach and results of Phase I activities. Please see Section 3 for details of the requested content for the MTA Phase I Report.

As discussed in Section 6, the Commission intends to set a budget cap on expenditures associated with Phase I and Phase II activities (combined) in order to ensure adequate funds remain available for MTIs that move forward into Phase III, Market Deployment.

### **Phase II: Program Development**

The purpose of Phase II is to develop the MTI concepts into full MTI Plans (or to abandon them if they are deemed unworkable as more information is gathered). The MTA will be the lead for program development: They will oversee any product and market testing needed, identification of the market adoption baseline, creation of the logic model, and establishment of progress metrics. The MTA will also work with PAs, other stakeholders, and market actors to ensure the MTI is coordinated with other existing programs.

The end result is intended to be an MTI Plan conforming with Appendix C of this document for each MTI that will move into Phase III, or abandoning MTIs that seem less promising. Abandoning MTIs is largely at the discretion of the MTA, as it will need to manage the number of MTIs and total budgets, but the MTA will need to provide an explanation and any lessons learned to the MTAB.

For MTIs that the MTA deems worthy of moving into Phase III Market Deployment, the MTA will submit an Application to the Commission articulating an MTI Plan conforming with Appendix C of this document.

### **Phase III: Market Deployment**

Phase III is where the MTIs are implemented in accordance with the MTI Plan, and evaluated in real-time. The MTA will bid out the majority of the MTI implementation work, including the planned EM&V activities. The MTA can also choose to form an IRC,<sup>11</sup> if deemed helpful for the success of the MTI. The MTA will actively administer each MTI and will provide the real-time evaluation and feedback function (as the Northwest Energy Efficiency Alliance does for its programs) to the implementers. The MTA, along with implementers and evaluators, will work cooperatively to assess and adjust the MTI as needed to achieve success, and together will support the CPUC and stakeholder processes for reconsideration of funding approval where milestone goals are not met, per the details articulated in the MTI Plan.

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<sup>10</sup> See Section 3, Stage 1a: Ideation & Intake for details.

<sup>11</sup> Initiative Review Committee. See Section 4 for complete definition.

## **Role of the Market Transformation Advisory Board (MTAB)**

### **Phase I: Concept Development**

#### Criteria and Guidance Setting

The MTA, with input from the MTAB, is responsible for establishing both the criteria and intake form. The process should be public and transparent, with ultimate approval required by the CPUC. This is required to clearly outline the expectations of the process prior to launch of either scanning the market or soliciting 3P ideas.

#### Concept Development & Assessment

The MTA will present the most promising potential MTIs to the MTAB. The MTAB may also request a summary of MTI ideas brought to the MTA but rejected, along with rationale for rejection. The MTAB will provide feedback and recommendations to pursue, modify, or reject each potential MTI brought forward by the MTA. Because the MTAB is not an authoritative body, its recommendations are not binding, but are intended to be taken into consideration by the MTA and the CPUC.

The MTAB feedback must be documented in the public Phase I Report that will be produced by the MTA.

### **Phase II: Program Development**

The MTA should meet with the MTAB on a quarterly basis, or more frequently if needed. During these quarterly meetings the MTA should update the MTAB on activities, findings, budgets and timelines. Notes from these meetings should be made available to the public and summaries attached to MTI Plan Applications to the Commission for full Market Deployment (Phase III).

### **Phase III: Market Deployment**

For MTIs reaching full Market Deployment (Phase III), the MTA should provide the MTAB an update at minimum once every year. However, for longer term MTIs, the MTA will not necessarily be seeking a recommendation for continuation or termination. Rather, milestones and contingencies established in the Plan should dictate continuation or termination of the MTI. In the event that the MTA wishes to continue an MTI that does not adhere to the Plan, consultation with the MTAB will be needed and the recommendation of the MTAB should still be sought. At no stage does the MTAB have authority to discontinue or force the continuation of an MTI. Rather, the MTAB should provide recommendations for MTA and CPUC consideration.

### **Composition of the MTAB**

The MTAB should consist of named individuals with a long-term background in California or national EE; broad-based interest in outcomes of California or national EE proceedings; and solid understanding of MT principles. Individual members should not have a financial interest in MTIs being contemplated or deployed in California. However, it may be difficult to entirely eliminate the possibility of conflicts of interest from MTAB members. In individual cases where a clear conflict arises, a member may step aside or be asked by the CPUC or other members of the MTAB to recuse themselves. In the event that an

appointed MTAB member is no longer willing or able to serve on the Board, the organization(s) responsible for their initial appointment shall appoint a replacement.

The MTAB should not change depending on the MTI but should oversee all California MTIs.

The MTA shall propose an MTAB of no more than 9 members, to be approved by the Director of the Commission's Energy Division. The Commission shall have up to two non-voting ex-officio members. Note that while Parties are not designated to make MTAB appointments, members of Parties' organizations may be appointed by the MTA.

The MTAB should be recruited to represent a diverse viewpoint and have at least one member with each of the following backgrounds:

- Ratepayer advocacy/protection
- Workforce and/or labor
- Environmental advocacy
- Evaluation professional
- National energy efficiency policy professional
- Utility energy efficiency professional
- CCA energy efficiency professional

Members of the MTAB are expected to devote the necessary time to review materials and provide insightful advice. Given this expectation, Members of the MTAB may be compensated for their time and any costs associated with serving on the MTAB out of the funding allocated by the Commission to this market transformation framework that is administered by the MTA.

### Role of an Independent Review Committee (IRC)

IRCs can be used to advise baseline development, vet intervention strategies, or provide technical advice on specific products or markets. Formation of an IRC is optional and can be done by the MTA at any point of an MTI's lifecycle where independent technical assessments and recommendations are needed. If an IRC is formed, its insights and recommendations should be provided to the MTAB before an update or a recommendation is sought. Members of an IRC will likely provide the most value if they devote the time needed to research the technical questions at hand and understand the MTI. Given the potential for in-depth work, members of the IRC should be eligible to have their time and expenses compensated out of the funding allocated by the Commission to this market transformation framework that is administered by the MTA. Regardless of the status of an IRC, the MTA should still be able to seek informal advice from industry or technical experts.

### Composition of an IRC

IRCs may consist of industry experts, academics from national laboratories or universities, individuals from governmental organizations such as the United States Department of Energy or Environmental Protection Agency, or others with relevant subject matter expertise. Because MTIs may vary dramatically from one to another, the composition of an IRC is expected to differ per MTI. Members of the IRC should not stand to benefit from the potential MTI and should be free from other conflicts of interest.

## **Section 5: Administration Structure for the Market Transformation Portfolio**

### **Administration by a Single, Independent Statewide Administrator**

The functions of program selection, design, and management will be carried out by a single, independent Statewide Administrator, which is referred to as the MTA. The MTA's purpose is to centralize the functions associated with administering a portfolio of MT initiatives and fulfilling the MTA roles and responsibilities outlined in Section 4 of this document. The MTA will be responsible for bidding out implementation work as needed.

### **Selection of the Single, Independent Statewide Administrator**

To create the appropriate regulatory framework and identify and hire an appropriate independent statewide MTA, the Commission will select an IOU to act as the statewide lead on MT, referred to as the lead IOU. The Commission will then direct the lead IOU to conduct an appropriate solicitation and hire the independent statewide MTA. The lead IOU will be the contracting agent, responsible for managing the procurement process. However, the selection of the independent statewide MTA will require approval by the CPUC Energy Division, and the selection should be based on additional input from other stakeholders in the process. The solicitation for the independent statewide MTA should also follow the normal procedures of IE and PRG review established by D.18-01-004, which are currently practiced for all 3P qualified EE programs, to ensure fair and well-managed procurements. However, once the MTA is in place, the MTA's own activities are not subject to the IE/PRG procurement oversight process, which is employed by the Commission to mitigate risks uniquely arising in the context of IOU procurement.

The initial entity selected as the independent statewide MTA should be offered a seven-year contract to conduct initial MT work. At the end of the fifth year, the MTAB will review the performance of the MTA and recommend to the Commission one of the following course of action:

- a) recommend the lead IOU renew the current independent MTA's contract,
- b) recommend lead IOU conduct another solicitation to identify a new administrator, or
- c) recommend the Commission initiate the necessary processes to allow the CPUC to directly manage the MTA's contract.

### **Features Related to Administration by a Single, Independent Statewide Administrator**

Annual funding of the independent statewide MTA will also be contingent on Commission approval of a Tier II Annual Budget Advice Letter (ABAL) submitted by the lead IOU on behalf of the MTA. The ABAL submitted by the lead IOU on behalf of the MTA will contain a report and recommendation to the Commission by the MTAB. As with other statewide programs, the budget for the MTA would be shared among the four IOUs proportionally according to their load shares. For individual MTIs, the lead IOU would be required to submit Application for approval on behalf of the MTA (as outlined in Section 3) to seek Commission authorization for Market Deployment (Phase III) of MTIs.

While much of the day-to-day work and even longer-term strategic planning related to MTIs will be done by the MTA, the MTA's work will be overseen by the appointed members of the MTAB, as assisted by MTI-specific IRCs when needed. (These entities and their roles are described in Section 4.)



## Section 6: Budget

### Amounts & Caps

The Commission authorizes a budget for market transformation initiatives that is not-to-exceed \$250M over five years of the Market Deployment Phase (III). Until the Market Deployment Phase (III) begins for the first MTIs, the startup budget for the MTA is \$10 million per year. This cap will ensure budget remains available for MTIs that advance to the Market Deployment (Phase III). This budget will be incremental to the currently authorized budget levels within the EE Rolling Portfolios. Specific budgets for MTIs that advance to Phase III will be authorized via Commission approval of the MTI Plan Application. All forecast budgets and expenditures (for all Phases) will be reviewed on an annual basis via the MT Annual Budget Advice Letter described in more detail below.

Since MTIs are administered outside of the EE Rolling Portfolios, they are not subject to the caps and targets for each cost category. However, the caps and targets should serve as guides for implementation. For example, an MTI in early phases may not need a marketing budget but may need more budget for administration or implementation. These needs should be identified in the MTA's reports and MTI Plan Applications, per the stage-gate process described in Section 3.

### Budget Approval Process

The Annual Budget Advice Letter (ABAL) model described in this section is adapted from the EE Rolling Portfolio cycle and balances flexible and timely budgeting with sufficient budget oversight and authorization by the Commission.

Annual funding requirements will likely vary considerably as MTIs are identified, developed, or sunset. In order to facilitate budget transparency and adjustments, the lead-IOU should submit a Tier II ABAL on behalf of the MTA that requests funding authorization of, and cost recovery for anticipated MT activities for the upcoming program year. The ABAL should include funding for general Phase I and Phase II activities as well as any MTI-specific Phase III activities that have been approved (or are anticipated to be approved) by the Commission via the MTI Plan Application for the upcoming program year.

### Integration with the Rolling Portfolio

Any program elements of an MTI that rely on Resource Acquisition activities are required to be included in EE Business Plan budgets authorized via Application and included in PAs' annual EE Rolling Portfolio ABALs.

### Funding Split

MTIs should be funded in the same way as statewide EE programs, and should consider the electric/gas split associated with each initiative. The proposal for a shared funding mechanism for statewide programs was approved in SDG&E 3268-E-A/2701-G-A.<sup>12</sup> There will need to be a contract between the

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<sup>12</sup> See <http://regarchive.sdge.com/tm2/pdf/3268-E-A.pdf>

lead IOU and the single, independent Statewide Administrator (MTA), following the model of Statewide Marketing Education & Outreach.

## Section 7: Market Transformation Cost-Effectiveness (CE) Framework

### Scope

MTIs shall be assessed using the current dual test of the Total Resource Cost Test (TRC) and Program Administrator Cost (PAC) Test with a focus on modifying the following three categories:

- 1) Counting C&S savings;
- 2) Timeframe of costs and benefits; and
- 3) The net-to-gross methodology.

This is consistent with NEEA's approach to CE, as well as the December 2014 Ralph Pahl and Ken Keating white paper developed for the CPUC entitled, "Building a Policy Framework to Support Energy Efficiency Market Transformation in California."<sup>13</sup>

This narrowly focused approach is intended to prioritize those inputs that are most important to align with a longer-term MT effort, rather than open discussion of CE in general. In addition, any updates to the CE methodology resulting from ongoing or new CPUC proceedings, including changes in energy system values over the timeframe of the MTIs, should trigger an update to these requirements.

### Counting Codes & Standards (C&S) Savings & Costs

#### Inclusion of C&S into the CE Methodology

An MTI may receive credit for savings achieved following the adoption of a Code or Standard as follows:

*An MTI is expected to accrue energy savings on an annual basis per the methodology outlined in the approved MTI Plan. If the MTI results in the adoption of a code or standard, the savings credit afforded the MTI for the years following code adoption shall be equal to three times the savings claim made in the final year of MTI operations prior to the code or standard adoption.*

An MTI CE calculation may include projected C&S savings in accordance with the above approach for C&S savings recognition. That is, C&S savings should reflect energy savings forecast for the final year of MTI operations prior to C&S adoption.

The Commission recognizes the above methodology for incorporating C&S savings is broad based and not highly customized.

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<sup>13</sup> CPUC Energy Data Web Access to "Building a Policy Framework to Support Energy Efficiency Market Transformation in California," December 9, 2014. <accessed February 15, 2019>  
<https://pda.energydataweb.com/#!/?q=Building%20a%20Policy%20Framework%20to%20Support%20Energy%20Efficiency%20Market%20Transformation%20in%20California&summary=false&attachment=false>

## Timeframe of Costs & Benefits (Separate from C&S)

*Any MTI CE calculation shall be measured on the same time horizon as the projected term of the initiative for both the benefits and costs associated with the initiative, plus C&S savings benefits as described above. Such an approach must account for (i) costs of the initiative in the near-term versus the long-term to account for expected decline in costs over time and (ii) benefits over time, accounting for growing measure adoption (and thus benefits) in later years as compared to initiative launch.*

This longer time horizon proposal does not encompass changes to the existing methodology used by the CPUC to measure savings but rather focuses on the attribution of those savings to MTIs over time. However, any updates to assumptions that modify inputs (e.g. energy costs) should be integrated into the CE calculation as applicable.

## Net-to-gross Methodology

*Any MTI CE calculation shall assess “what would have happened anyway” through a baseline approach that relies on available market data when possible or other accepted methodologies when such data is unavailable. The baseline should also incorporate anticipated savings from potentially overlapping RA whenever applicable. Achievement of savings through MTI activities that go beyond the agreed-upon projected baseline would be attributed to the initiative. Note that the component of the baseline forecast composed of RA savings should be trued up over time and as part of the process of MTI savings accrual.*

## CE Threshold

There will not be an individual threshold benefit-cost ratio that MTIs must pass initially. However, the MTA will be expected to manage the cost-effectiveness of the market transformation portfolio as a whole, with an eye toward increasing cost-effectiveness and benefits exceeding costs of the entire portfolio over the long term.

MTIs play out over a much longer time period than RA programs and use a more indirect path to reducing energy use. The stage-gate process is designed to reduce and manage the risk inherent in undertaking MTIs. However, even with stage-gating, the MTA will have sunk some cost into failed initiatives that cannot be recovered. Other MTIs may continue over their entire foreseen lifecycle, but not realize their ex ante forecasts because of exogenous events that could not be anticipated, such as shifts in markets or available technologies that quickly make the adopted technology obsolete.

## Section 8: Coordination of Market Transformation Initiatives and Resource Acquisition Programs

### Introduction

As MTI ideas are being collected and progress through the stage-gate approval process, their potential impacts on RA program(s) and C&S implementation should be carefully considered. The approach described in this section should be applied to identify overlaps, find opportunities for collaboration, and where necessary, help resolve conflicts between MTIs and RA and/or C&S program(s).

The MTA, and any impacted PA(s), 3P Implementers (3PIs) of RA programs, and C&S teams each have a role in charting a course that enhances the efficiency outcomes (potentially including savings as well as equity, grid support, and other objectives) of the proposed MTI as well as of RA and C&S programs. Each may also have a role in eliminating or minimizing and mitigating any conflict between the MTI and RA/C&S programs. The parties should work collaboratively toward these objectives as much as possible. While the CPUC is the ultimate arbiter in the event of conflict between an MTI and RA/C&S program(s), customers and California's policy objectives for the energy system are best served if the MTA, PAs, 3PIs, and C&S teams can optimize outcomes amongst themselves.

### Overview

Below is a multi-step framework for addressing MTI overlaps with RA/C&S programs. The framework is discussed in further detail in subsequent sub-sections below.

- 1) **Identify Overlaps.** During the process of identifying and developing any MTI, the MTA, working with the MTI proposer(s), relevant PA(s), 3PIs, C&S teams and other stakeholders, will evaluate whether, and to what extent, the proposed MTI might overlap with any RA/C&S programs.
- 2) **Select MTIs to Enhance Positive and Minimize Negative Overlaps.** The MTA, during the process of identifying and developing any MTI, will consider the nature and extent of overlap with RA/C&S implementation programs as part of the MT selection process, seeking opportunities for positive overlaps, and the elimination or reduction of negative overlaps.
- 3) **Collaboration to Enhance Outcomes.** The MTA, MTI proposer(s), and relevant PA(s), 3PI(s) and C&S implementation team(s) will work collaboratively together to find ways for the proposed MTI and affected RA/C&S programs to work synergistically, increasing value to customers and the energy system and promoting a robust and competitive market for efficiency.
- 4) **Informal Dispute Resolution.** The MTA, PA, 3PI(s)/C&S teams and relevant MTI proposer(s) should engage in informal discussions intended to find project-by-project solutions to any conflicts.
- 5) **Formal CPUC Alternative Dispute Resolution (ADR) Procedures.** If a conflict remains after the informal discussions, the MTA, PA, 3PI or C&S team(s), or MTI proposer(s) may invoke expedited

CPUC resolution procedures.<sup>14</sup> The CPUC is the ultimate arbiter in the event the parties cannot resolve the dispute themselves.

## Identifying & Assessing Overlaps

The MTA, working with the MTI proposer(s) and with relevant PA(s), 3PIs, and C&S implementation teams, will:

- 1) **Identify Potential Conflicts**  
Review potential MTIs and potentially affected 3PI/C&S programs to identify any potential overlaps, including those noted above.
- 2) **Assess Significance of Benefit Loss.** Assess the potential of the overlap to:
  - a. Eliminate or reduce benefits from the MTI and/or the RA/C&S programs;
  - b. Cause customer or market confusion;
  - c. Decrease competition/chill investment;
  - d. Deter or increase costs of financing the MTI or RA/C&S program(s).
- 3) **Assess Timing Overlap.** Assess:
  - a. The remaining RA contract term/C&S implementation phase relative to the MTI implementation timing;
  - b. When the MTI is expected to begin impacting customers in a way that might interfere with RA/C&S program(s);
  - c. Whether any conflict(s) can be resolved by adjusting the timing of the MTI and/or the RA/C&S program(s).
- 4) **Cost of Coordination**  
Assess any additional cost to coordinate the MTI and the RA/C&S program(s) to avoid:
  - a. Loss of anticipated benefits from the MTI or the RA/C&S program(s);
  - b. Customer confusion; or
  - c. Other harm to a robust, competitive market.

## Activities to Avoid/Reduce/Mitigate Overlap

- Define principles and expectations of coordination prior to MT idea solicitation: The MTA and Rolling Portfolio PA(s) should develop and share mutually agreed upon guidance to potential proposers regarding the types and potential implications of MTI/Rolling Portfolio coordination.<sup>15</sup>
- Design MTI with cooperation in mind: All MTIs will be designed, and MTI RFPs/RFAs will include requirements, to work together with RAs, C&S implementation, and other mechanisms

<sup>14</sup> Existing CPUC alternative dispute resolution processes may be used, preferably with expedited timing. See <http://www.cpuc.ca.gov/adr/>.

<sup>15</sup> This is analogous to the joint cooperation memos between the IOUs, Community Choice Aggregators (CCAs), and Regional Energy Networks (RENs).

delivering EE in that market, seeking to maximize beneficial cooperation and minimize conflict. MTI Plans will include a discussion of RA coordination.

- Early alignment during RA RFPs: Future RA RFPs will include incentives for 3PIs to collaborate in the development and implementation of MTIs, in coordination with MTA and MTI proposer(s)/implementer(s). Any potential to adjust RA/C&S programs in conjunction with MTI implementation should avoid increasing uncertainty for the 3PI, which would increase financing burden and cost and, as a result, increase customer cost.<sup>16</sup>
- Accessible info: All MT RFPs/RFAs will include a brief description of related RA and C&S implementation programs, as well as links to detailed descriptions. MTI proposer(s) will be required to include a discussion of how their potential MTIs would dovetail with existing RA/C&S implementation effort(s) in their submission(s).

## Resolution of Conflicts

If conflicts remain after efforts to coordinate, collaborate, and avoid, minimize and mitigate conflicts, then the conflict will be resolved through the following process.

There will be three stages of dispute resolution:

- 1) **Informal Dispute Resolution.** The MTA, MTI proposer(s) and relevant PA and 3PI(s)/C&S teams shall engage in informal discussions focused on developing project-specific solutions that will maximize efficiency benefits while maintaining a robust, competitive market and minimizing customer confusion.
- 2) **Formal ADR Procedures.** If a conflict remains after the informal discussions, the MTA, MTI proposer(s) or relevant PA, 3PI(s) or C&S team(s) may use a mediator through the CPUC's ADR procedures, an independent mediator, or the CAEECC's facilitation team. The party invoking dispute resolution would be required to provide a summary of issues and impacts. To minimize harm to the proposed MTI and the affected RA/C&S program(s), the ADR should follow an expedited schedule. The ADR results should be included in the Advice Letter submission for the applicable MTI phase.
- 3) **Last Resort: CPUC Decision.** If informal and formal dispute resolution efforts are unavailing, the CPUC will be the ultimate arbiter, including its decision within its approval of the Advice Letter for the applicable phase of the MTI.

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<sup>16</sup> Increasing cost or difficulty of financing has been established to increase cost of delivering energy products to market, requiring implementers to increase bid prices, which in turn increases customer costs.

## Appendix A: Draft Stage-gate Criteria

NOTE: The approach to stage-gate criteria is laid out at a high-level of detail; the MTA in consultation with the MTAB is expected to further refine the criteria discussed here. This document should not be used prescriptively; it only lays out one possible approach.

The overall objective of MT development in Phase I and Phase II is to conduct the necessary due diligence to develop data-driven business cases for scaling up an MT concept in Phase III. Ideally, the general criteria for MTIs remain essentially the same throughout all three phases but differ in the level of rigor with which they are assessed. As a concept progresses through the due diligence stages, the data and analysis supporting decision-making in each stage will necessarily be more detailed and rigorous. Once an MTI is launched, the general MT criteria should be monitored over the long term to ensure externalities do not make the original justification for the MTI obsolete.

Ideally, the criteria should be weighted so that the MTA can give greatest weight to those objectives that are deemed most important. This weighting can be quantified in a “prioritization model” that simply consists of an equation with multiple terms, with each term corresponding to a criterion, along with a weighting factor for each term.

The stage-gate criteria should align with objectives stated in Section 2: Market Transformation Initiative Principles, Guidelines, & Strategies. Of the principles and criteria discussed to date, there are five objectives:

- 1) Energy savings.
- 2) GHG reduction.
- 3) Workforce development.
- 4) Can be coordinated with the Rolling Portfolio to result in net increase in energy savings. (See Principle 1: “Drive incremental savings that achieve the state’s energy efficiency (EE), equity, and GHG reduction goals”; Principle 3: “Complement and coordinate with Rolling Portfolio programs”; and the overall objective of supporting SB 350, which calls for doubling of energy savings.)
- 5) Equity.

The MTA should review and revise these objectives. Because the gating criteria discussed so far are not comprehensive, there are also some general criteria that may be considered by the MTA. The general criteria are centered around the following categories and subsume the five objectives in the MTI Principles and Guidelines.

Nominal, ordinal, and/or quantitative scales can be developed for any criteria to track level of documentation/understanding of the MTI in that category.



## General MT Criteria Categories

- 1) Projected long term CE (including energy savings potential and total cost of the MTI).
- 2) Feasibility
  - a. Technical performance of the measure/solution
  - b. Market leverage point(s)/MTI logic (including supply chain readiness)
  - c. Measurability/evaluability
  - d. Agreement of non-MTA market actors
  - e. Likelihood of persistence (longevity of MTI relevance).
- 3) Portfolio Fit (coordination with Portfolio).
- 4) Societal Benefits
  - a. Policy fit
  - b. Equity
  - c. Non-energy benefits
  - d. From the customer perspective, is there a compelling value proposition?

In Phase III, the criteria for continued funding and exiting or transition will be unique to each MTI but should include projected CE. These criteria will be defined in the MTI Plan so that all stakeholders can provide review and feedback before an MTI is funded for larger scale implementation. In addition to the MTI-specific criteria, the general MTI criteria will require continuous monitoring to ensure that market changes and technology advancements have not made the MTI obsolete and that the forecasted savings still supports long-term CE.

There are several paths for exiting or transitioning out of an MTI; the particular path depends on the MTI approach that will be laid out in the MT Plan. For example, an MTI may target transitioning to a C&S, transitioning to a deemed approach, or exiting due to market saturation and mass market adoption.

Key Criteria to Advance.	Expertise /Resources Needed
<b>Phase I: Stage 1 - Concept Scanning &amp; Identification</b>	
<p>Note: Submitted ideas are expected to vary widely in terms of maturity and pre-existing documentation. The MTA will use two channels for idea intake. The MTA will conduct a formal solicitation for a turnkey MT program, ideally in coordination with the ongoing 3P solicitations. In addition to a formal solicitation, ideas that are not turnkey or “shovel-ready” can be submitted through on online or email channel.</p> <p>Rank ordering of all ideas will be based on the General MTI Criteria listed above. The MT criteria should be weighted, after discussion of overall MT objectives.</p> <p>The applicant will be asked for information at five levels of detail; only one level (Level 2) is required.</p>	<p>Staffing Needed for:</p> <ul style="list-style-type: none"> <li>Validation of program design and implementation – High-level only (e.g. “Does this program design seem plausible upon first glance?”)</li> <li>Validation of savings potential – High-level only (e.g. “Do the savings seem plausible upon first glance?”)</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>As submitted on the intake form, and reviewed by</li> </ul>

Key Criteria to Advance.	Expertise /Resources Needed
<p><b>Level 1. Pre-screening (Optional; See Appendix B, Section 1)</b> Before even applying, the applicant will first be asked to self-screen their idea, to determine if it is appropriate for an MTI. (Source: NEEA)</p> <p><b>Level 2. Proposed idea and category (Required, See Appendix B, Section 2)</b> The applicant can fill out an application, on which there are 15 required items on contact information, product category, and a description of proposed idea. At this point the application can be submitted, or the applicant can provide more detailed, optional information. (Source: ETP/ETCC/SCE)</p> <p><b>Level 3. Product benefits, costs, distribution (Optional; See Appendix B, Section 3)</b> If the application has the information, they can fill out 19 optional questions on a) benefits and costs, b) technology production and distribution, and c) market information. If the applicant has documentation of their product data, they can upload this information. (Source: ETP/ETCC/SCE)</p> <p><b>Level 4. Market transformation intervention logic (Optional; See Appendix B, Section 4)</b> If the applicant is ready to provide information on the MT intervention logic, they can fill out this section. (Source: SCE MT team)</p> <p><b>Level 5. Turnkey MT quantitative documentation (Optional; See Appendix B, Section 5 for a placeholder pending further development)</b> If the applicant has a program that is ready to launch, they will be asked to provide a quantitative summary and backing documentation. (Source: B. Barnacle).</p> <p><b>Rank ordering</b> At this early stage, rank ordering may need to be done based on a binary “Data available/Data not available” basis. The objective of the rank ordering is to allow the MTA to identify those submissions that have verifiable claims. This ranking can allow the MTA to prioritize their review, and to gauge the amount of additional development/data necessary for due diligence on the submissions. See above discussion about needing to set overall objectives of MT before weighting any criteria. Suggest: Top 15 ranked submissions advance to Stage 2 Note: Confidential and/or proprietary information will need to be redacted from the summarized list.</p>	<p>technologists and subject matter experts in engineering</p>
<p><b>Phase 1: Stage 2 - Concept Development &amp; Assessment</b></p>	
<p>To advance (i.e. be included in an MT Development Plan), the MT concept must be one of the top ideas, after</p>	<p>Staffing Needs:</p>

Key Criteria to Advance.	Expertise /Resources Needed
<p>considering these General MTI Criteria (weighting to be determined later).</p>	<ul style="list-style-type: none"> <li>• Validation of program design and implementation</li> <li>• Validation of Portfolio fit</li> <li>• Validation of savings potential</li> <li>• Validation of market potential</li> <li>• Validation of policy alignment</li> <li>• Others?</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>• Existing internal research-workpapers, EM&amp;V reports</li> <li>• Secondary research – industry market reports</li> <li>• Others?</li> </ul>
<p>Phase I DECISION GATE – MTA Report is issued documenting Process and Plans for MTIs to advance to Phase II</p>	<p>See Roles and Responsibilities</p>
<p><b>Phase II: Stage 3 - Strategy Development</b></p>	
<p>To advance (i.e. be included considered for pilot testing or other strategy testing), the MT concept must be one of the top ideas, after considering these General MTI Criteria (weighting to be determined later).</p> <p>The market leverage point, measure savings, and program Portfolio fit needs to be clearly understood before testing or piloting. For example, the MTI's market(s) have been characterized and/or are well understood, the per-unit savings of the solution have been validated, a good intervention has been identified to take advantage of a leverage point within the market, there is evidence that the solution can be scaled up across the statewide IOU territory, there is evidence that the solution can become cost-effective at scale, there are no regulatory or policy barriers that would put savings at risk, the pilot test and/or scaled up intervention will not have unintended consequences on the rest of the Rolling Portfolio (such as altering price signals), the MTI provides something not otherwise available through the Rolling Portfolio (e.g. new market, accelerated adoption, new intervention).</p>	<p>Staffing Needs:</p> <ul style="list-style-type: none"> <li>• Validation of program design and implementation</li> <li>• Validation of Portfolio fit</li> <li>• Validation of savings potential</li> <li>• Validation of market potential</li> <li>• Others?</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>• Existing internal research-workpapers, EM&amp;V reports</li> <li>• Secondary research – industry market reports</li> <li>• Primary research – Commissioned industry market reports, market characterization studies, market leverage point and/or market barrier studies</li> <li>• Others?</li> </ul>
<p><b>Phase II: Stage 4 - Strategy Testing</b></p>	
<p>Strategy testing can be conducted under controlled conditions if full factorial design is desired, and via in-situ pilots to understand real world challenges. Strategy testing should focus on primarily testing the intervention strategy, the ability to engage contributing non-MTA market actors, and Portfolio fit. However, in situ pilots offer an opportunity to provide data for all criteria categories.</p>	<p>Staffing Needs:</p> <ul style="list-style-type: none"> <li>• Validation of program design and implementation</li> <li>• Validation of Portfolio fit</li> <li>• Validation of savings potential</li> <li>• Validation of market potential</li> <li>• Validation of pilot/testing evaluation plan</li> </ul>

Key Criteria to Advance.	Expertise /Resources Needed
<p>Results will be compared against the pilot test success criteria defined in Stage 3 (see above).</p> <p>To advance and be considered for inclusion in an MT Plan, an MTI must meet its own defined pilot success criteria and continue to rank highly on the General MTI Criteria.</p>	<ul style="list-style-type: none"> <li>• Validation of policy alignment</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>• Existing internal research-workpapers, EM&amp;V reports</li> <li>• Secondary research – industry market reports</li> <li>• Primary research – Commissioned industry market reports, market characterization studies, market leverage point and/or market barrier studies</li> </ul>
<b>Phase II DECISION GATE – Approving and funding MTI Plans</b>	See Roles and Responsibilities
<b>Phase III: Stage 5 - Market Development</b>	
<p>Criteria for each MTI will be unique to the MTI (see Stage 6). Stage 5 and Stage 6 will likely run in parallel.</p>	<p>See Stage 6.</p> <p>Staffing Needs:</p> <ul style="list-style-type: none"> <li>• MTI implementers</li> </ul>
<b>Phase III: Stage 6 - Long-Term Monitoring</b>	
<p>Exit/transition criteria and market progress indicators will be unique to each MTI. All MTI-specific criteria and market indicators will be laid out in the MT Plan.</p> <p>The prime objective of monitoring the General MTI Criteria will be monitored to identify changes that may affect forecasted savings potential.</p>	<p>Staffing Needs:</p> <ul style="list-style-type: none"> <li>• Validation of savings potential</li> <li>• Validation of market potential</li> <li>• Validation of savings and savings forecasts</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>• Existing internal research-workpapers, EM&amp;V reports</li> <li>• Secondary research – industry market reports</li> <li>• Primary research – Periodic industry market reports, market characterization studies, market leverage point and/or market barrier studies</li> </ul>
<b>Phase III: Stage 7 - Transition or Sunset MTI</b>	
<p>Currently, the objectives of MT are to exit when, “Continuation of the same publicly-funded intervention is no longer appropriate in that specific market,” or, “Until they are adopted into codes and standards” (or otherwise substantially adopted by the market).</p> <p>Due to the unique nature of each MTI, the MTI-specific exit criteria will be laid out in the MTI Plan. The overarching exit criteria would be:</p> <p><i>“When the annual forecast of MTI savings shows that continued scaling would not result in a cost-effective</i></p>	<p>Staffing Needs:</p> <ul style="list-style-type: none"> <li>• Validation of savings potential</li> <li>• Validation of market potential</li> <li>• Validation of savings and savings forecasts</li> <li>• Validation of policy alignment</li> </ul> <p>Data Needs:</p> <ul style="list-style-type: none"> <li>• Existing internal research-workpapers, EM&amp;V reports</li> <li>• Secondary research – industry market reports</li> </ul>

Key Criteria to Advance.	Expertise /Resources Needed
<p><i>program,” Or, “When a better (lower cost, more effective) intervention can be implemented.”</i></p> <p>Other MTI-specific exit criteria should address the same General MTI Criteria prioritization. If there is a change so that an MTI does not meet any of the original General MTI Criteria, the MTA should consider whether an exit is warranted.</p>	<ul style="list-style-type: none"><li>• Primary research – Periodic industry market reports, market characterization studies, market leverage point and/or market barrier studies</li></ul>

## Appendix B: Draft Intake Application Form

NOTE: An approach to stage-gate criteria is laid out at a high-level of detail, but the MTA in consultation with the MTAB is expected to further refine the criteria discussed here. This document should not be used prescriptively; it only lays out one possible approach.

Currently, the utilities use one intake form for consideration of new measures as well as new RA programs. This form can be found on the ETP/ETCC website, and on each utilities' website, such as at [sceideas.com](http://sceideas.com). For the sake of space, we will not replicate that form here. However, we suggest that this form can be incorporated into the Draft Intake Application Form in Sections 2 (required items) and Section 3 (optional items). NEEA also uses pre-screening questions that each applicant can ask themselves. We have replicated those questions here in Section 1.

The IOU PAs have used the existing intake forms to successfully vet measures and ideas for RA programs. With MTIs, however, additional information needs to be obtained in order for the MTA to determine whether a submission is a valid MT idea as opposed to another RA program. There may also be numerous excellent MT program ideas already being implemented outside of California, for which there is existing documentation of market leverage points and evidence of successful intervention. For these, the intake form and criteria that would be suitable for mature programs that might be proposed through a targeted solicitation for turnkey MTIs.<sup>17</sup>

In developing any MTI intake form, the MTA should include the official definition of MT in California, to help submitters and 3Ps understand any differences in California's definition compared to definitions by other organizations.

### Draft Intake Form

[D.09-09-047](#) on p.88-89

"Market transformation is long-lasting, sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where continuation of the same publicly-funded intervention is no longer appropriate in that specific market. Market transformation includes promoting one set of efficient technologies, processes or building design approaches until they are adopted into codes and standards (or otherwise substantially adopted by the market), while also moving forward to bring the next generation of even more efficient technologies, processes or design solutions to the market."

California's definition of MT (above) includes two end states: One when an MTI results in C&S adoption, the other when market barriers have been reduced to the point where the same intervention is no longer needed. In other words, the MT effort needs to be designed towards the exit of the intervention.

To help the MTA determine whether your idea is suitable for an MTI please answer the following questions to the best of your knowledge. This information does not have to be complete but will help the MTA determine whether a "shovel-ready" MT opportunity exists, or how much development would be needed for your idea to reach that state.

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<sup>17</sup> The MTWG decided that all MTIs, including turnkey MTIs, will go through the same intake and ideation process.

**Section 1**

To help determine whether your idea is suitable for consideration as an MTI, please review the following questions. If you answer Yes to any of these, your idea may be better suited for consideration in the existing energy efficiency (EE) Rolling Portfolio. (This is based on NEEA's five short screening questions, available at <https://neea.org/get-involved/submit-your-idea/proposal-criteria>.) In addition, please carefully review the list of ineligible MTI concepts, if any, before proceeding.

Ineligible MTI Concepts:

- 1) Concept description
- 2) Concept description

Preliminary self-screening questions:

- 1) Does your product or service have the potential to save energy in California?
- 2) Can the energy savings be easily measured?
- 3) Is the product or service commercially available today?
- 4) Does your product or service have the potential to meet or exceed existing utility customer needs?
- 5) Is there a compelling opportunity to address a non-financial market barrier that is keeping your product or service from being widely adopted?

If you answered "Don't Know" to any of the above items, you should address those issues prior to submitting a Proposal Application to the MTA. If you answered "No" to any of the questions, unfortunately, your product or service is not appropriate for this solicitation.

**Section 2 (All Programs)**

See the existing IOU intake form (same form is available at both sites): <https://www.etcc-ca.com/idea-proposal-form> and <https://sceideas.com> for the specific REQUIRED questions about:

- 1) The requestor's contact information.
- 2) Product description.
- 3) Product stage.
- 4) Product availability.

- 5) Product end use category.
- 6) Product target market.

### Section 3 (All Programs)

See the existing IOU intake form (same form is available at both sites): <https://www.etcc-ca.com/idea-proposal-form> and <https://sceideas.com> for the specific OPTIONAL questions about:

- 1) Benefits and costs.
- 2) Technology production and distribution.
- 3) Market information, including known market barriers.

### Section 4 (MT-Specific Intake Questions)

Please answer the following questions to the best of your knowledge. These are open-ended questions, and the MTA may follow up with you on these questions.

#### Phase I: Concept Development (Stages 1-2)

**Part A:** The Concept Development form should be built into an online intake tool e.g. ETCC, for the intake of initial MT ideas.

#### 1.) MT Objectives

Define the market barriers and rationale for MT intervention.

- a. What market barrier(s) does the MTI address?
  - i. Describe the barrier(s), e.g. customer awareness, supply chain, product availability, pricing, environmental externalities, etc. Include whether the barrier(s) is/are long-term vs. short-term.
  - ii. Provide the source of this information (i.e. attach study summary, link to report, etc.).
  - iii. How does this intervention improve the customer experience?
- b. How will the MT intervention overcome/alleviate the defined market barrier(s)? e.g. increased awareness, adoption/penetration, increased non-energy benefits, etc.
  - i. Provide the program theory or logic supporting the effectiveness of the intervention (i.e. "Why do you expect your intervention(s) to work? Why your specific intervention(s) and not another option?")
  - ii. Provide an expected timeline for savings once the market barriers are removed/addressed and describe how long-term savings persistence will be ensured.



## Phase II: Program Development (Stages 3-4)

**Part B:** The Program Development form should be presented in the MTA's Report documenting the MT selection process, and presenting the activities, budgets, and timelines for the MTIs selected to move into Phase II.

### 2.) Intervention Strategy

Describe why an MT intervention is the best strategic approach over Resource Acquisition (RA).

- a. What technology, measure or product is being targeted for the MTI and why?
  - i. Provide estimates of the technical, economic, and market potential for the MTI target. Provide the sources of these estimates.
- b. Are the barriers currently being addressed in a RA program?
- c. How much would this intervention cost over the life of the initiative?
- d. If so:
  - i. Identify the program and describe how an MTI will complement the existing RA intervention strategy.
  - ii. Provide the program theory or logic supporting the need for a complementary MT intervention strategy.
- e. Describe how and why the MT intervention is the best strategic approach to addressing the barrier(s) versus a RA intervention.
  - i. Provide justification for use of your specific MT intervention strategy above other choices.

### 3.) Market Engagement

Define the market, market actors, and market channels the MTI will engage (e.g. manufacturers, distributors, retailers, contractors, consumers, etc.).

- a. Provide a market characterization and assessment of the relationships and/or dynamics among market actors, including identification of the key barriers.
  - i. Provide the source of this market characterization (i.e. attach study summary, link to report)
- b. Describe how the MTI will deliver savings (upstream, downstream, direct install, etc.), how it will reach customers, and the services it will provide to engage the market.
- c. What MT tools will be used to engage and inform market actors (e.g. incentives, Marketing Education and Outreach (ME&O), WE&T, Emerging Technologies (ET) and C&S).
- d. What MT coordination activities need to be established to gain market traction (e.g. partnerships for collaboration)

Market Actor Engagement (including manufacturers, Regional Energy Networks (RENs), Community Choice Aggregators (CCAs), municipal utilities)

- e. Define the market actors who would be able to help implement an MTI
  - i. What role would they play, that could not be achieved by others?
  - ii. How would their involvement accelerate MT?
  - iii. Have you approached them and discussed their willingness to participate?
  - iv. Why are they interested in being an MTI partner?

4.) **Performance Metrics**

Describe the market progress metrics (metric, measurement method, frequency, etc.).

- a. Provide quantitative information describing the current EE program baseline information (and/or other relevant baseline information (current level of adoption)) for the market segment and major sub-segments, as available. Provide the source of this information
- b. What are some initial (0-5 year) and long term (5+ year) milestones to ensure the MTI is on track to achieve its objectives and savings? Which of these are leading indicators and which are lagging indicators?

5.) **EM&V**

Describe any process evaluation or other evaluation efforts that the MTA will undertake.

- a. Identify the evaluation needs and data collection strategies that ensure ease of reporting and near-term feedback.

**Section 5: Turnkey MTI Intake Form & Criteria**

Criteria	Structured Data Prompt	Structured Data Format	Open Text Field (OTF)	Attachments	Purpose for structured data and review	Outcome from Review
Energy Savings	What percent energy savings does your product/service offer relative to standard practice?	Percentage	Please discuss standard practice and why your product is not currently being adopted. (500 words)	Third-party reports; Product specifications	Structured data feeds into market potential calculation. SME review of OTF and attachments may decrease/confirm percentage based on level of confidence.	Refined / validated energy savings estimate
Market Sizing	What are your target market segments for your product/service?	Select all that apply	Please summarize current penetration into each market segment, competitive advantages, barriers, growth opportunities, and other factors. (500 words)	Case studies;	Structured data pulls from CA models for (1) market sector size (2) EE potential models, (3) stock turnover, etc. to calculate total savings potential. SME review of OTF refines market size based on confidence.	Refined / validated market size
Commercial Readiness	Are there third-party tests and reports justifying your claims for energy savings and other benefits?	Yes / No	Please summarize the findings. (500 words)	Third-party reports	Presence of third-party testing and reports may allow for certain MT assessment and planning steps to be streamlined. SME review helps refine understanding if risk and confidence in claims.	Readiness score
Commercial Readiness	Are there third-party ratings that cover your product?	Yes / No	Please discuss the state of existing ratings and opportunities to evolve them. (250 words)	Link to rating specification(s)	Is there a third-party function to assist with standardizing key product features to ensure product quality and help build consumer trust?	Readiness score
Supply Chain	What percentage of your sales are direct to customer?	Percent	Please summarize the strengths and weaknesses of your sales and services channels. (1,000 words)		Indicative of how mature the supply chain is. Generally speaking, an immature supply chain will require discrete interventions and may/may not pose immediate market opportunities.	Maturity score

Costs	Estimate the full-term program cost.	Dollar Value	Summarize the use of program funds "Program Development" and "Market Development." (500 words)		Structured data feeds into initial cost-benefit calculation for automated prioritization. The SME review of costs and barriers to be addressed will refine the number, proving a more realistic cost-benefit analysis.	Refined / validated MTI costs
Equity	Does your project provide benefits to low-income, disadvantaged, or otherwise hard-to-reach ratepayers?	Yes / No	Please summarize the benefits and how they can be measured.		Structured data triggers a review by a low-income SME. Qualitative review by low-income SME results in an "equity score."	Equity score
Benefits	Does your product provide benefits beyond energy savings?	Yes / No	Please elaborate on the scope of benefits your product/service offers to customers and utilities. Include third-party reports and case studies if available. (500 words)	Third-party reports; case studies	SMEs review to assess the benefits beyond EE... it may be flexible capacity for utilities, or customer-specific benefits that dwarf EE savings such as space utilization, smart Operations and Maintenance (O&M), employee productivity, etc.	Benefits score

## **Appendix C: Content Requirements for Market Transformation Initiative Plan**

This appendix contains content requirements for the market transformation initiatives that are complementary to the Stage-Gate and Criteria sections of this attachment and therefore should be considered by the MTA and MTAB, when they are finalizing both the stage-gate processes and procedures and the MT criteria.

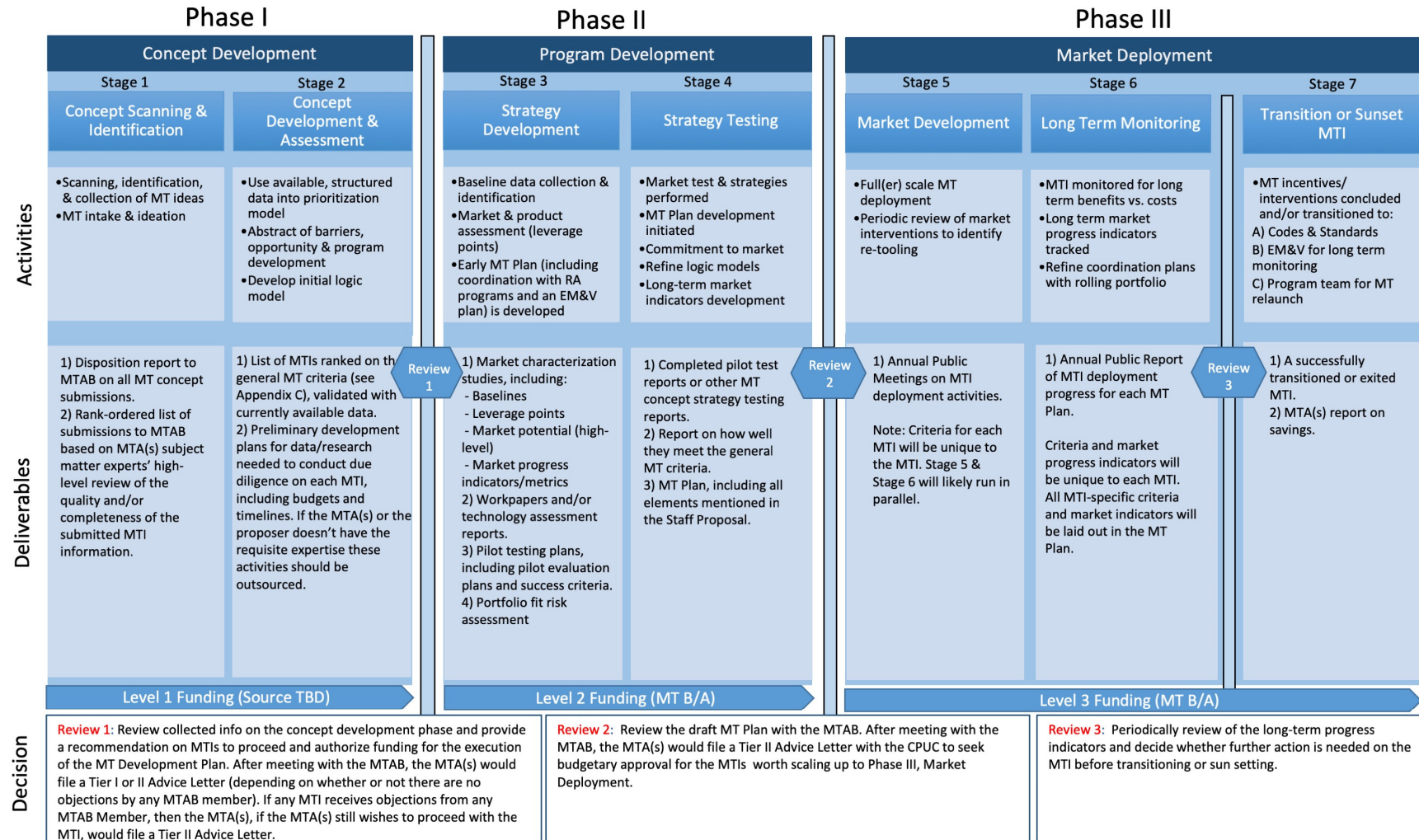
Complete Market Transformation Initiative proposals should include the following elements:

- Define a target market that is well-understood and manageable.
- Define target technologies, behaviors, sectors and applications.
- Present current product performance data and/ or relevant behavior research.
- Address energy savings potential, competing products, and the costs and benefits associated with target and competing products.
- Describe the supply chain, product demand and delivery methods, the role of each market actor and how the market operates and functions.
- Present a thorough assessment of market drivers and barriers.
- Present a clear program theory and logic model, identifying market leverage points and intervention strategies. This should draw a clear and logical link between the present state of the market, the contemplated intervention strategies and the desired future state of the market.
- Describe strategies and data for sizing the market and projecting a naturally occurring adoption curve or baseline for the market.
- Appoint members of the Initiative Review Committee.
- Complete a Delphi process to finalize the initial baseline projection over the life of the initiative.
- Specify a plan for updating the savings forecast at regular intervals. The original baseline for normally-occurring adoption will not be changed, as it forms the justification for the MTI using best available data at that time.
- If the MTI includes an existing RA program, present a RA coordination plan that demonstrates support from, and coordination with, all related RA programs. This plan could offer a fixed free-ridership rate for the resource programs for an interim period. This plan may also present a schedule and process for updating free ridership assumptions and for phasing out the resource programs altogether over the longer-term, in sync with the progress of the Market Transformation Initiative.
- Articulate the data and methods that will be used to determine energy savings attributable to the program over its lifecycle.
- Present a forecast of energy savings over the lifecycle of the initiative, as well as a budget, and a

schedule of cost-effectiveness.

- Carefully define interim market indicators and milestones that will track progress, and a data collection plan to support their measurement.
- Specify which milestones, if any, would be associated with PA-incentive reward payments.
- For each milestone that triggers a PA-incentive payment, define a maximum allowable delay for achieving that milestone. (Delays that exceed of the maximum allowable time will trigger review for program termination.)
- Provide a detailed plan for ongoing evaluation, measurement and evaluation to track progress, adjust strategies or metrics if needed, and to substantiate savings claims.
- Characterize the amount of risk associated with the effort and how it would be distributed across stakeholders. Describe risk mitigation strategies.
- Describe the desired goal state of the market for the MTI, and define the program exit strategy.
- Specify when and how progress reports will be shared with the Commission and stakeholders that detail Initiative activities, results and progress against milestones.

## Appendix D: Stage-gate Schematic



(End of Attachment A)